Consolidated interim report of the Grupa Azoty Group for Q3 2021

Contents

Interim condensed consolidated financial statements for the three and nine months ended September 30th 2021 prepared in accordance with IFS 34 Interim Financial Reporting endorsed by the European Union.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of profit or loss and other comprehensive income

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
Profit/loss	*unaudited*	*unaudited*	*unaudited*	*unaudited*
Revenue	10,416,755	7,788,663	3,882,100	2,416,045
Cost of sales	(8,598,170)	(6,172,751)	(3,354,106)	(1,978,884)
Gross profit	**1,818,585**	**1,615,912**	**527,994**	**437,161**
Selling expenses	(763,062)	(683,067)	(270,669)	(202,943)
Administrative expenses	(601,291)	(585,659)	(193,721)	(178,675)
Other income	76,997	127,273	47,461	18,971
Other expenses	(41,794)	(40,493)	(4,171)	(12,915)
Operating profit	**489,435**	**433,966**	**106,894**	**61,599**
Finance income	62,533	11,653	1,053	2,121
Finance costs	(186,952)	(85,100)	(76,489)	(13,126)
Net finance costs	**(124,419)**	**(73,447)**	**(75,436)**	**(11,005)**
Share of profit of equity-accounted investees	12,215	11,298	4,169	4,218
Profit before tax	**377,231**	**371,817**	**35,627**	**54,812**
Income tax	(109,541)	(108,732)	(21,653)	(13,832)
Net profit	**267,690**	**263,085**	**13,974**	**40,980**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Actuarial gains/(losses) from defined benefit plans	11,716	(16,474)	-	5
Tax on items that will not be reclassified to profit or loss	(2,252)	3,154	-	(1)
	9,464	**(13,320)**	**-**	**4**

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of profit or loss and other comprehensive income (continued)

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
Items that are or may be reclassified to profit or loss				
Cash flow hedging - effective portion of fair value changes	(29,271)	(51,757)	(16,734)	(11,601)
Exchange differences on translating foreign operations	3,426	43,133	25,295	11,876
Income tax relating to items that are or will be reclassified to profit or loss	(104)	9,834	3,487	2,204
	(25,949)	**1,210**	**12,048**	**2,479**
Total other comprehensive income	**(16,485)**	**(12,110)**	**12,048**	**2,483**
Comprehensive income for the period	**251,205**	**250,975**	**26,022**	**43,463**
Net profit attributable to:				
Owners of the parent	242,295	226,517	11,650	31,293
Non-controlling interests	25,395	36,568	2,324	9,687
Comprehensive income for the period attributable to:				
Owners of the parent	230,943	216,204	23,375	33,773
Non-controlling interests	20,262	34,771	2,647	9,690
Earnings per share:				
Basic (PLN)	2.44	2.28	0.12	0.32
Diluted (PLN)	2.44	2.28	0.12	0.32

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of financial position

	as at Sep 30 2021	as at Dec 31 2020
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	11,902,598	10,573,104
Right-of-use assets	806,680	834,690
Investment property	66,370	57,364
Intangible assets	1,019,785	1,027,310
Goodwill	327,889	331,683
Shares	9,168	9,168
Equity-accounted investees	89,271	91,461
Other financial assets	2,626	2,484
Other receivables	512,537	489,827
Deferred tax assets	94,671	94,125
Other assets	509	509
Total non-current assets	**14,832,104**	**13,511,725**
Current assets		
Inventories	1,683,772	1,534,011
Property rights	86,139	529,199
Derivative financial instruments	22	43,471
Other financial assets	1,987	-
Current tax assets	31,107	19,621
Trade and other receivables	3,534,138	1,628,244
Cash and cash equivalents	706,675	923,328
Other assets	17,398	17,456
Assets held for sale	95	95
Total current assets	**6,061,333**	**4,695,425**
Total assets	**20,893,437**	**18,207,150**

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of financial position (continued)

	as at Sep 30 2021	as at Dec 31 2020
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(72,047)	(48,540)
Translation reserve	66,772	63,311
Other capital reserves	(17,700)	(17,700)
Retained earnings	4,683,411	4,427,756
Equity attributable to owners of the parent	**7,574,683**	**7,339,074**
Non-controlling interests	**960,226**	**949,828**
Total equity	**8,534,909**	**8,288,902**
Liabilities		
Borrowings	4,010,890	3,322,320
Lease liabilities	333,260	355,774
Derivative financial instruments	92,478	-
Other financial liabilities	609,914	579,438
Employee benefit obligations	477,954	490,864
Trade and other payables	21,370	18,609
Provisions	213,469	211,022
Government grants received	194,530	196,973
Deferred tax liabilities	535,009	529,419
Total non-current liabilities	**6,488,874**	**5,704,419**
Borrowings	574,476	193,443
Lease liabilities	71,305	71,422
Derivative financial instruments	5,887	6,086
Other financial liabilities	852,695	670,459
Employee benefit obligations	50,421	54,863
Current tax liabilities	67,626	70,013
Trade and other payables	3,818,852	3,092,693
Provisions	45,537	40,504
Government grants received	382,855	14,346
Total current liabilities	**5,869,654**	**4,213,829**
Total liabilities	**12,358,528**	**9,918,248**
Total equity and liabilities	**20,893,437**	**18,207,150**

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of changes in equity

for the period ended September 30th 2021 (*unaudited*)

	Share capital	Share premium	Hedging reserve	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as at Jan 1 2021	**495,977**	**2,418,270**	**(48,540)**	**63,311**	**(17,700)**	**4,427,756**	**7,339,074**	**949,828**	**8,288,902**
Profit or loss and other comprehensive income									
Net profit	-	-	-		-	242,295	242,295	25,395	267,690
Other comprehensive income	-	-	(23,507)	3,461	-	8,694	(11,352)	(5,133)	(16,485)
Comprehensive income for the period	**-**	**-**	**(23,507)**	**3,461**	**-**	**250,989**	**230,943**	**20,262**	**251,205**
Transactions with owners, recognised directly in equity									
Dividends	-	-	-	-	-	-	-	(5,651)	(5,651)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,651)**	**(5,651)**
Changes in ownership interests in subsidiaries									
Changes in the Group's structure	-	-	-	-	-	4,647	4,647	(4,200)	447
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**4,647**	**4,647**	**(9,851)**	**(5,204)**
Other Activities	-	-	-	-	-	19	19	(13)	6
Balance as at Sep 30 2021 (*unaudited*)	**495,977**	**2,418,270**	**(72,047)**	**66,772**	**(17,700)**	**4,683,411**	**7,574,683**	**960,226**	**8,534,909**

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

For the period ended September 30th 2020 (unaudited)

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as at Jan 1 2020	**495,977**	**2,418,270**	**5,872**	**(8,252)**	**4,124,507**	**7,036,374**	**657,573**	**7,693,947**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	226,517	226,517	36,568	263,085
Other comprehensive income	-	-	(41,923)	43,155	(11,545)	(10,313)	(1,797)	(12,110)
Comprehensive income for the period	**-**	**-**	**(41,923)**	**43,155**	**214,972**	**216,204**	**34,771**	**250,975**
Transactions with owners, recognised directly in equity								
Issue of ordinary shares	-	-	-	-	-	-	210,368	210,368
Dividends	-	-	-	-	-	-	(9,447)	(9,447)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**200,921**	**200,921**
Changes in ownership interests in subsidiaries								
Changes in the Group’s structure	-	-	-	-	(5,584)	(5,584)	6,897	1,313
Total transactions with owners	**-**	**-**	**-**	**-**	**(5,584)**	**(5,584)**	**207,818**	**202,234**
Other Activities	-	-	-	-	956	956	(968)	(12)
Balance as at Sep 30 2020 (*unaudited*)	**495,977**	**2,418,270**	**(36,051)**	**34,903**	**4,334,851**	**7,247,950**	**899,194**	**8,147,144**

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of cash flows

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020
	unaudited	*unaudited restated**
Cash flows from operating activities		
Profit before tax	**377,231**	**371,817**
Adjustments for:		
Depreciation and amortisation	577,104	568,932
(Reversal of)/impairment losses on assets	271	(998)
(Gain)/loss from investing activities	(53,802)	1,171
Gain on disposal of financial assets	(2)	(453)
Share of profit of equity-accounted investees	(12,215)	(11,298)
Interest, foreign exchange gains or losses	34,668	123,013
Dividends	(200)	(127)
Fair value (gain)/loss on financial assets at fair value	(101,594)	3,079
(Increase)/decrease in trade and other receivables	(1,946,871)	17,079
Decrease in inventories and property rights	293,857	286,384
Increase in trade and other payables	3,431,517	307,076
Increase in provisions	7,341	3,879
Increase/(decrease) in employee benefit obligations	(20,656)	31,914
Increase in grants	361,142	130,512
Other adjustments	4,701	(4,677)
Income tax paid	(88,798)	(43,069)
Net cash from operating activities	**2,863,694**	**1,784,234**

*as described in Section 2.2.d.

The supplementary information is an integral part of these interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020
	unaudited	*unaudited restated**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	61,546	14,650
Purchase of property, plant and equipment, intangible assets and investment property	(1,992,385)	(1,879,660)
Dividend received	70,343	7
Purchase of other financial assets	(1,997)	(80,669)
Proceeds from sale of other financial assets	-	253,844
Interest received	-	17,866
Government grants received	-	680
Repayments of loans advanced	9	86
Other proceeds/(disbursements)	(3,381)	(27,427)
Net cash from investing activities	**(1,865,865)**	**(1,700,623)**
Cash flows from financing activities		
Net proceeds from non-controlling interests on account of issue of shares in a subsidiary	-	205,175
Dividends paid	(5,651)	(9,447)
Proceeds from borrowings	1,904,829	769,482
Repayment of borrowings	(794,064)	(245,116)
Interest paid	(60,837)	(143,507)
Payment of lease liabilities	(51,544)	(48,154)
Repayment of reverse factoring liabilities	(2,216,283)	(825,578)
Other financing cash proceeds/(disbursements)	11,984	5,237
Net cash from financing activities	**(1,211,566)**	**(291,908)**
Total net cash flows	**(213,737)**	**(208,297)**
Cash and cash equivalents at beginning of period	**923,328**	**770,087**
Effect of exchange rate fluctuations on cash held	(2,916)	14,347
Cash and cash equivalents at end of period	**706,675**	**576,137**

*as described in Section 2.2.d.

The supplementary information is an integral part of these interim condensed consolidated financial statements.

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at September 30th 2021, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty Spółka Akcyjna (the Parent, Grupa Azoty S.A.) and its direct subsidiaries:

- COMPO EXPERT Holding GmbH (COMPO EXPERT) – wholly-owned,
- Grupa Azoty ATT Polymers GmbH – wholly-owned,
- Grupa Azoty Compounding Sp. z o.o. – wholly-owned,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. ("Grupa Azoty SIARKOPOL") – a 99.56% interest,
- Grupa Azoty Zakłady Azotowe Puławy S.A. ("Grupa Azoty PUŁAWY") – a 95.98% interest,
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. ("Grupa Azoty KĘDZIERZYN") – a 93.48% interest,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.) – a 63.27% interest, with Grupa Azoty KĘDZIERZYN holding a 36.73% interest,
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE) – a 62.86% interest,
- Grupa Azoty Koltar Sp. z o.o. ("Grupa Azoty KOLTAR") – a 60% interest, with Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN each holding a 20% interest,

as well as the indirect subsidiaries and associates presented on the next pages.

Data of the Parent and its direct and indirect subsidiaries is consolidated using the full method.

The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's REGON number for public statistics purposes is 850002268.
Since April 22nd 2013, the Parent has been trading under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

The principal business of the Grupa Azoty Group companies comprises in particular:

- processing of nitrogen products,
- manufacture and sale of mineral fertilizers,
- manufacture and sale of plastics,
- manufacture and sale of OXO alcohols,
- manufacture and sale of titanium white,
- manufacture and sale of melamine,
- production of sulfur and processing of sulfur-based products.

The Parent and the other Group companies were incorporated for an indefinite period.

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on November 9th 2021.

(all amounts in PLN '000 unless indicated otherwise)

Grupa Azoty PUŁAWY

Company	Ownership interest (%)	Share capital
Agrochem Puławy Sp. z o.o.	100.00	PLN 68,639 thousand
SCF Natural Sp. z o.o.	99.99	PLN 15,001 thousand
Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o.	99.19	PLN 59,003 thousand
Grupa Azoty Zakłady Azotowe Chorzów S.A.	96.48	PLN 94,700 thousand
STO-ZAP Sp. z o.o.	96.15	PLN 1,117 thousand
Remzap Sp. z o.o.	94.61	PLN 1,812 thousand
Prozap Sp. z o.o.[1)]	78.86	PLN 892 thousand
Bałtycka Baza Masowa Sp. z o.o.	50.00	PLN 19,500 thousand
Grupa Azoty KOLTAR Sp. z o.o.	20.00	PLN 54,600 thousand
Technochimserwis S.A. (closed joint-stock company), Russian Federation	25.00	RUB 800 thousand

1) Grupa Azoty POLICE holds 7.35% of shares in Prozap Sp. z o.o.

Grupa Azoty Zakłady Azotowe Puławy S.A. and the subsidiaries in which it holds equity interests of more than 50%, with the exception of STO-ZAP Sp. z o.o., are consolidated using the full method. STO-ZAP Sp. z o.o. and Technochimserwis S.A. (closed joint-stock company) are excluded from consolidation due to immateriality. Bałtycka Baza Masowa Sp. z o.o. is consolidated using the equity method.

Grupa Azoty POLICE

Company	Ownership interest (%)	Share capital
Grupa Azoty Transtech Sp. z o.o.	100.00	PLN 9,783 thousand
Grupa Azoty Police Serwis Sp. z o.o.	100.00	PLN 9,618 thousand
Grupa Azoty Africa S.A. w likwidacji (in liquidation)	99.99	XOF[3)] 132,000 thousand
Zarząd Morskiego Portu Police Sp. z o.o.	99.91	PLN 32,642 thousand
Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	48.96	PLN 1,201 thousand
Grupa Azoty Polyolefins S.A.[1)] (**Grupa Azoty POLYOLEFINS**)	34.41	PLN 922,968 thousand
Kemipol Sp. z o.o.	33.99	PLN 3,445 thousand
Prozap Sp. z o.o.[2)]	7.35	PLN 892 thousand

1) *The Parent directly holds 30.52% of shares in Grupa Azoty POLYOLEFINS S.A.*
2) *Grupa Azoty PUŁAWY holds 78.86% of shares in Prozap Sp. z o.o.*
3) *XOF is the West African CFA franc*.

Kemipol Sp. z o.o. and Budchem Sp. z o.o. are accounted for using the equity method. The other subsidiaries of Grupa Azoty Zakłady Chemiczne Police S.A. are fully consolidated.

(all amounts in PLN '000 unless indicated otherwise)

Grupa Azoty KĘDZIERZYN

Company	Ownership interest (%)	Share capital
ZAKSA S.A.[1)]	91.67	PLN 6,000 thousand
Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o.	36.73	PLN 85,631 thousand
Grupa Azoty KOLTAR Sp. z o.o.	20.00	PLN 54,600 thousand

1) Grupa Azoty KOLTAR Sp. z o.o holds 0.783% of shares in ZAKSA S.A.

The subsidiary and associates of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. are fully consolidated as all of them are also direct subsidiaries of Grupa Azoty S.A.

Grupa Azoty PKCh Sp. z o.o.

Company	Ownership interest (%)	Share capital
Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o.[1)]	100.00	PLN 21,749 thousand
Grupa Azoty Prorem Sp. z o.o.[2)]	100.00	PLN 11,567 thousand
Grupa Azoty Automatyka Sp. z o.o.	77.86	PLN 4,654 thousand

1) *Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. holds 12% of shares in EKOTAR Sp. z o.o.*
2) *Grupa Azoty Prorem Sp. z o.o. holds 12% of shares in EKOTAR Sp. z o.o.*

All subsidiaries of Grupa Azoty PKCh are fully consolidated.

Compo Expert Holding GmbH Group

Company	Ownership interest (%)	Share capital
COMPO EXPERT International GmbH	100	EUR 25 thousand

COMPO EXPERT International GmbH

Company	Ownership interest (%)	Share capital
COMPO EXPERT GmbH	100.00	EUR 25 thousand
COMPO EXPERT Italia S.r.l.	100.00	EUR 10 thousand
COMPO EXPERT Spain S.L.	100.00	EUR 3 thousand
COMPO EXPERT Portugal, Unipessoal Lda.	100.00	EUR 2 thousand
COMPO EXPERT France SAS	100.00	EUR 524 thousand
COMPO EXPERT Polska Sp. z o.o.	100.00	PLN 6 thousand
COMPO EXPERT Hellas S.A.	100.00	EUR 60 thousand
COMPO EXPERT UK Ltd.	100.00	GBP 1
COMPO EXPERT Techn. (Shenzhen) Co. Ltd.	100.00	CNY 2,810 thousand
COMPO EXPERT Asia Pacific Sdn. Bhd.	100.00	MYR 500 thousand
COMPO EXPERT USA&CANADA Inc.	100.00	USD 1
COMPO EXPERT Brasil Fertilizantes Ltda.[1)]	99.99	BRL 26,199 thousand
COMPO EXPERT Chile Fertilizantes Ltda.[2)]	99.99	CLP 1,528,560 thousand

(all amounts in PLN '000 unless indicated otherwise)

COMPO EXPERT India Private Limited	99.99	INR 2,500 thousand
COMPO EXPERT Benelux N.V.[3)]	99.99	EUR 7,965 thousand
COMPO EXPERT Mexico S.A. de C.V.[4)]	99.99	MXN 100 thousand
COMPO EXPERT Egypt LLC[5)]	99.90	EGP 100 thousand
COMPO EXPERT Turkey Tarim Sanai ve Ticaret Ltd. Şirketi[6)]	96.17	TRY 264,375
COMPO EXPERT Argentina SRL[7)]	90.00	ARS 41,199 thousand

1) 0.000003% of the share capital is held by COMPO EXPERT GmbH.
2) 0.01% of the share capital is held by COMPO EXPERT GmbH.
3) 0.0103% of the share capital is held by COMPO EXPERT GmbH.
4) 0.000311% of the share capital is held by COMPO EXPERT GmbH.
5) 0.1% of the share capital is held by COMPO EXPERT GmbH.
6) 3.83% of the share capital is held by COMPO EXPERT GmbH.
7) 10.000024% of the share capital is held by COMPO EXPERT GmbH.

In addition, COMPO EXPERT GmbH holds shares in:

Company	Ownership interest (%)	Share capital
COMPO EXPERT South Africa (Pty) Ltd.	100.00	ZAR 100
COMPO EXPERT Austria GmbH	100.00	EUR 35 thousand

All companies of the COMPO EXPERT Holding GmbH Group are fully consolidated.

1.2. Changes in the Group's structure

Changes in the structure of Group companies in the period July 1st–September 30th 2021:

Merger of subsidiaries
On July 6th 2021, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, being the court with jurisdiction over the acquirer, registered the merger of Grupa Azoty POLICE with Supra Agrochemia Sp. z o.o.
The merger was effected in accordance with Art. 492.1.1 of the Commercial Companies Code, i.e. by transferring to Grupa Azoty POLICE, as the sole shareholder of Supra Agrochemia Sp. z o.o., all assets of the acquiree (merger by acquisition) without increasing the share capital of Grupa Azoty POLICE since all the shares in the share capital of the acquiree were held by Grupa Azoty POLICE.
Following the merger, Grupa Azoty POLICE, pursuant to Art. 494.1 of the Commercial Companies Code, assumed all rights and obligations of Supra Agrochemia Sp. z o.o. as of the merger date.

Repurchase of Grupa Azoty SIARKOPOL shares
On July 27th 2021, the Annual General Meeting of the Company passed a resolution on repurchase of 120 Series A registered shares under Art. 418[1] of the Commercial Companies Code. The Parent is the shareholder obliged to repurchase the shares.

Cancellation of Remzap Sp. z o.o. shares
On September 30th 2021, 15 shares of former employees of the company were cancelled. As a result, the percentage of voting rights held by Grupa Azoty PUŁAWY at the General Meeting of Remzap Sp. z o.o. increased from 97.12% to 97.17%.

Acquisition of Prozap Sp. z o.o. shares for cancellation
In September 2021, 19 shares in Prozap Sp. z o.o., held by former employees of the company, were acquired for cancellation.
As a result, the percentage of voting rights held by Grupa Azoty PUŁAWY at the General Meeting of Prozap Sp. z o.o. rose from 80.39% to 81.27%.

2. Basis of preparation of the interim condensed consolidated financial statements

2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the three and nine months ended September 30th 2021 and contain comparative data for the three and nine months ended September 30th 2020 and as at December 31st 2020.
Interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2020, which were authorised for issue on April 12th 2021.
The Company's interim financial results may not be indicative of its potential full-year financial results.
All amounts in these interim condensed consolidated financial statements are presented in thousands of złoty, unless indicated otherwise.

These interim condensed consolidated financial statements were prepared under the assumption that the Group would continue as a going concern for the foreseeable future. As at the date of authorisation of these condensed interim consolidated financial statements, no circumstances were identified which would indicate any threat to the Group companies continuing as going concerns.

For information on the impact of the COVID-19 pandemic on the Group's situation, see Section 3.9 *Information on the effects of the COVID-19 pandemic*.

2.2. Accounting policies and data presentation

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with those applied to draw up the Grupa Azoty Group's full-year consolidated financial statements for the year ended December 31st 2020.

a) Changes in International Financial Reporting Standards

The amendments to International Financial Reporting Standards ("IFRSs") presented below have been applied in these interim condensed consolidated financial statements as of their effective dates, however, they had no material effect on the disclosed data:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase II.**

The amendments to these standards were issued on August 27th 2020 to complement the first phase of reporting amendments resulting from the reform of interbank reference rates of September 2019. The amendments are effective for annual periods beginning on or after January 1st 2021. Phase II amendments address issues that might affect financial reporting, e.g. relating to valuation of financial instruments and lease liabilities, when an existing interest rate benchmark is replaced with a new benchmark (i.e. replacement issues).

Furthermore, as of January 1st 2021, following endorsement by the European Commission in October 2020, the Group applies the Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions. The amendment was issued on May 28th 2020 and is effective for annual periods beginning on or after June 1st 2020, with earlier application permitted. The amendment to IFRS 16 introduces a practical expedient permitting a lease modification not to be recognised in the event of any changes in lease payments occurring (by June 30th 2021) as a consequence of the COVID-19 pandemic or lessees are granted other concessions changing the original financial terms of leases due the pandemic. No such events occurred in the case of the Group.

January 1st 2021 is the effective date of amendments to IFRS 4, issued on June 25th 2020, to defer the effective date of IFRS 9 *Financial Instruments* for insurers until January 1st 2023, in accordance with the deferred effective date of IFRS 17 *Insurance Contracts*.

The application of the above standards had no material effect on the financial statements.

b) New standards and interpretations

The standards and interpretations which have been issued but are not yet effective as they have not been endorsed by the EU or have been endorsed but the Group has not elected to apply them early:

In these financial statements, the Group has not opted to early apply any standards or interpretations which have been issued but are not yet effective.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but are not effective as at the reporting date:

- **IFRS 17 *Insurance Contracts***

  The new standard was issued on May 18th 2017 and subsequently amended on June 25th 2020, and is effective for annual periods beginning on or after January 1st 2023. Early application is permitted as long as IFRS 15 and IFRS 9 are also applied. The standard supersedes earlier regulations on insurance contracts (IFRS 4). On June 25th 2020, IFRS 4 was also amended to defer the effective date of IFRS 9 *Financial Instruments* for insurers until January 1st 2023.

- **Amendments to IAS 1 *Presentation of Financial Statements*: *Classification of Liabilities as Current or Non-current***

  Amendments to IAS 1 were issued on January 23rd 2020 with its effective date subsequently modified in July 2020, and are effective for annual periods beginning on or after January 1st 2023.

  The amendment redefines the criteria for classifying liabilities as current. The amendment may affect the presentation of liabilities and their reclassification between current and non-current.

- **Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to IFRS Standards 2018–2020.**

  The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. One of the amendments prohibits deducting from the cost of property, plant and equipment of any proceeds from selling items produced while the entity is developing/preparing the asset for its intended use.

- **Amendments to IAS 1 Disclosure of Accounting Policies and IAS 8 Definition of Accounting Estimates**

  The amendments were issued on February 12th 2021, and are effective for annual periods beginning on or after January 1st 2023. The purpose of these amendments is to place greater emphasis on the disclosure of material accounting policies and to clarify how companies should distinguish between changes in accounting policies and changes in accounting estimates.

- **Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions granted after June 30th 2021**

  The amendment to IFRS 16 was issued on March 31st 2021 and is effective for annual periods beginning on or after April 1st 2021. The only purpose of the amendment is to extend by one year (until June 30th 2022) the period in which the granting of COVID-19-related rent concessions does not need to involve a modification of the lease contract. This amendment is closely related to the already effective amendment to IFRS 16, issued in May 2020.

- **Amendment to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

  The amendment to IAS 12 was issued on May 7th 2021 and is effective for annual periods beginning on or after April 1st 2023. The amendments clarify that the exemption relating to initial recognition of deferred tax does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences and entities are required to recognise deferred tax on such transactions. The amendments thus address the emerging doubts as to whether the exemption applies to transactions such as leases and decommissioning obligations.

The IFRSs as endorsed by the EU do not differ materially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, interpretations and amendments thereto, which were not yet adopted by EU Member States as at the date of authorisation of these condensed interim consolidated financial statements for issue.

- IFRS 17 *Insurance Contracts* issued on May 18th 2017, as amended on June 25th 2020,
- Amendments to IAS 1 *Presentation of Financial Statements:* Classification of liabilities as current and non-current, issued on January 23rd 2020, as amended on July 15th 2020,
- Amendments to IAS 1 *Disclosure Initiative* and IAS 8 *Definition of Accounting Estimates*, issued on February 12th 2021.

- Amendment to IFRS 16 *Leases* – COVID-19-Related Rent Concessions granted after June 30th 2021, issued on March 31st 2021,
- Amendment to IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued on May 7th 2021.

The Group will apply the amended standards as of their effective dates set by the EU. As at the date of these interim condensed consolidated financial statements, the Group did not complete its assessment of the effect of applying the amended standards on its financial statements.

c) Accounting estimates and judgments

The preparation of these interim condensed consolidated financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and other factors deemed reasonable under the circumstances, and their results provide a basis for judgements regarding the net carrying amounts of assets and liabilities, where they are not directly available from other sources. Actual results may differ from these estimates.

Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the change is made or in current and future periods if the change in estimates affects both the current period and the future periods.

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements, especially with respect to amortisation/depreciation periods, analysis of impairment and provisions, were not materially different from those made in preparing the consolidated financial statements for the financial year ended December 31st 2020.

CO_2 emission allowances

The Group companies participating in the EU emission trading system have received or expect to receive free CO_2 emission allowances covering part of their emissions from production processes and heat generation. The allowances expected to be received in connection with the 2021 emissions were recognised as other receivables.

For details, see Note 13 to the interim condensed consolidated financial statements for the six months ended June 30th 2021. The amount of receivables under allowances expected to be received for 2021 was remeasured at market prices as at September 30th 2021.

d) Presentation changes

Following changes in the presentation of data on the effect of changes in items of the statement of financial position in the consolidated statement of cash flows as at December 31st 2020, in order to provide more detailed information the Company presents below the relevant restatements as at September 30th 2020 relating to the interim statement of cash flows.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of cash flows

	for the period Jan 1 – Sep 30 2020	Change	for the period Jan 1 – Sep 30 2020 restated
Cash flows from operating activities			
Profit before tax	**371,817**	**-**	**371,817**
Adjustments for:			
Depreciation and amortisation	568,932	-	568,932
Reversal of impairment losses	(998)	-	(998)
Loss on investing activities	1,171	-	1,171
Gain on disposal of financial assets	(453)	-	(453)
Share of profit of equity-accounted investees	(11,298)	-	(11,298)
Interest, foreign exchange gains or losses	123,013	-	123,013
Dividends	(127)		(127)
Fair value loss on financial assets at fair value	3,079	-	3,079
Decrease in trade and other receivables	149,355	(132,276)	17,079
Decrease in inventories and property rights	286,384	-	286,384
Increase in trade and other payables	314,678	(7,602)	307,076
Increase in provisions, accruals and government grants	26,427	(26,427)	-
Increase in provisions	-	3,879	3,879
Increase in employee benefit obligations	-	31,914	31,914
Increase in grants	-	130,512	130,512
Other adjustments	(4,677)	-	(4,677)
Income tax paid	(43,069)	-	(43,069)
Net cash from operating activities	**1,784,234**	**-**	**1,784,234**

(all amounts in PLN '000 unless indicated otherwise)

	for the period Jan 1 – Sep 30 2020	Change	for the period Jan 1 – Sep 30 2020 restated
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, intangible assets and investment property	14,650	-	14,650
Purchase of property, plant and equipment, intangible assets and investment property	(1,879,660)	-	(1,879,660)
Dividend received	7	-	7
Purchase of other financial assets	(80,669)	-	(80,669)
Proceeds from sale of other financial assets	253,844	-	253,844
Interest received	17,866	-	17,866
Government grants received	680	-	680
Repayments of loans advanced	86	-	86
Other proceeds/(disbursements)	(27,427)	-	(27,427)
Net cash from investing activities	**(1,700,623)**	**-**	**(1,700,623)**
Cash flows from financing activities			
Net share capital issue proceeds	205,175	-	205,175
Dividends paid	(9,447)	-	(9,447)
Proceeds from borrowings	769,482	-	769,482
Repayment of borrowings	(245,116)	-	(245,116)
Interest paid	(143,507)	-	(143,507)
Payment of lease liabilities	(48,154)	-	(48,154)
Repayment of reverse factoring liabilities	(825,578)	-	(825,578)
Other cash provided by financing activities	7,745	(7,745)	-
Other cash used in financing activities	(2,508)	2,508	-
Other financing cash proceeds/(disbursements)	-	5,237	5,237
Net cash from financing activities	**(291,908)**	**-**	**(291,908)**
Total net cash flows	**(208,297)**	**-**	**(208,297)**
Cash and cash equivalents at beginning of period	**770,087**	**-**	**770,087**
Effect of exchange rate fluctuations on cash held	14,347	-	14,347
Cash and cash equivalents at end of period	**576,137**	**-**	**576,137**

3. Selected notes and supplementary information

3.1. Business segment reporting

Operating segments

The Group's business objectives are delivered through four main reportable segments, identified based on separate management strategies (production, sales, and marketing) adopted in each of the segments.

Operations of the Company's reportable segments:

- Agro Fertilizers segment: manufacture and sale of specialty products (fertilizers and fertilizing products), compound fertilizers, solid and liquid nitrogen fertilizers with sulfur, phosphate fertilizers, ammonia, technical grade and concentrated nitric acid and technical gases;
- Plastics segment: manufacture and sale of caprolactam, natural engineering plastics, modified plastics, and plastic products;
- Chemicals segment: manufacture and sale of melamine, OXO products, sulfur, titanium white, iron sulfate, as well as urea and ammonia solutions;
- Energy segment: production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale to external customers (mainly electricity). As part of its operations, the segment also purchases and distributes natural gas for process needs;
- Other Activities segment: research work and analytical testing, laboratory services, catalyst production, property rental and other activities not allocated to any of the other segments.

Presentation change – transfer of Grupa Azoty POLYOLEFINS from Other Activities to the Plastics segment
As at December 31st 2020, given significant progress on the Polimery Police project, operations of Grupa Azoty POLYOLEFINS were transferred from Other Activities to the Plastics segment. Data for the three months ended September 30th 2020 were restated accordingly.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments

Operating segments' revenue, expenses and financial results for the nine months ended September 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	5,770,416	1,352,776	2,813,405	251,632	228,526	10,416,755
Intersegment revenue	2,686,338	326,439	891,485	3,070,025	752,366	7,726,653
Total revenue	8,456,754	1,679,215	3,704,890	3,321,657	980,892	18,143,408
Operating expenses, including: (-)	(8,285,172)	(1,665,757)	(3,468,361)	(3,311,193)	(958,693)	(17,689,176)
selling and distribution expenses (-)	*(571,306)*	*(52,739)*	*(137,330)*	*(142)*	*(1,545)*	*(763,062)*
administrative expenses (-)	*(289,126)*	*(127,456)*	*(144,466)*	*(12,043)*	*(28,200)*	*(601,291)*
Other income	5,094	47,671	6,374	4,034	13,824	76,997
Other expenses (-)	(7,942)	(9,640)	(3,400)	(4,195)	(16,617)	(41,794)
Segment's EBIT*	**168,734**	**51,489**	**239,503**	**10,303**	**19,406**	**489,435**
Finance income	-	-	-	-	-	62,533
Finance costs (-)	-	-	-	-	-	(186,952)
Share of profit of equity-accounted investees	-	-	-	-	-	12,215
Profit before tax	**-**	**-**	**-**	**-**	**-**	**377,231**
Income tax	-	-	-	-	-	(109,541)
Net profit	**-**	**-**	**-**	**-**	**-**	**267,690**
EBIT*	168,734	51,489	239,503	10,303	19,406	489,435
Depreciation and amortisation	248,140	57,692	75,558	85,190	110,524	577,104
EBITDA**	**416,874**	**109,181**	**315,061**	**95,493**	**129,930**	**1,066,539**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' revenue, expenses and financial results for the nine months ended September 30th 2020 (unaudited) restated

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	4,769,173	836,869	1,827,799	179,905	174,917	7,788,663
Intersegment revenue	1,419,491	231,042	577,140	1,904,765	654,155	4,786,593
Total revenue	6,188,664	1,067,911	2,404,939	2,084,670	829,072	12,575,256
Operating expenses, including: (-)	(5,824,770)	(1,168,739)	(2,313,675)	(2,105,451)	(815,435)	(12,228,070)
selling and distribution expenses (-)	*(524,089)*	*(46,324)*	*(111,435)*	*(148)*	*(1,071)*	*(683,067)*
administrative expenses (-)	*(290,286)*	*(107,683)*	*(131,196)*	*(14,229)*	*(42,265)*	*(585,659)*
Other income	55,359	11,179	32,115	12,840	15,780	127,273
Other expenses (-)	(8,823)	(1,232)	(1,488)	(12,637)	(16,313)	(40,493)
Segment's EBIT*	**410,430**	**(90,881)**	**121,891**	**(20,578)**	**13,104**	**433,966**
Finance income	-	-	-	-	-	11,653
Finance costs (-)	-	-	-	-	-	(85,100)
Share of profit of equity-accounted investees	-	-	-	-	-	11,298
Profit before tax	**-**	**-**	**-**	**-**	**-**	**371,817**
Income tax	-	-	-	-	-	(108,732)
Net profit	**-**	**-**	**-**	**-**	**-**	**263,085**
EBIT*	410,430	(90,881)	121,891	(20,578)	13,104	433,966
Depreciation and amortisation	242,240	54,934	80,909	82,470	108,379	568,932
EBITDA**	**652,670**	**(35,947)**	**202,800**	**61,892**	**121,483**	**1,002,898**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' revenue, expenses and financial results for the three months ended September 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,109,835	510,621	1,101,689	83,705	76,250	3,882,100
Intersegment revenue	1,076,489	134,902	299,721	1,220,077	284,933	3,016,122
Total revenue	3,186,324	645,523	1,401,410	1,303,782	361,183	6,898,222
Operating expenses, including: (-)	(3,264,911)	(633,280)	(1,293,877)	(1,292,035)	(350,515)	(6,834,618)
selling and distribution expenses (-)	*(200,985)*	*(19,374)*	*(50,037)*	*(62)*	*(211)*	*(270,669)*
administrative expenses (-)	*(98,240)*	*(36,671)*	*(45,832)*	*(2,653)*	*(10,325)*	*(193,721)*
Other income	775	44,827	2,131	1,088	(1,360)	47,461
Other expenses (-)	(3,374)	(404)	(1,229)	(1,753)	2,589	(4,171)
Segment's EBIT*	**(81,186)**	**56,666**	**108,435**	**11,082**	**11,897**	**106,894**
Finance income	-	-	-	-	-	1,053
Finance costs (-)	-	-	-	-	-	(76,489)
Share of profit of equity-accounted investees	-	-	-	-	-	4,169
Profit before tax	**-**	**-**	**-**	**-**	**-**	**35,627**
Income tax	-	-	-	-	-	(21,653)
Net profit	**-**	**-**	**-**	**-**	**-**	**13,974**
EBIT*	(81,186)	56,666	108,435	11,082	11,897	106,894
Depreciation and amortisation	82,600	19,247	25,273	28,699	37,487	193,306
EBITDA**	**1,414**	**75,913**	**133,708**	**39,781**	**49,384**	**300,200**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' revenue, expenses and financial results for the three months ended September 30th 2020 (unaudited) restated

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,441,281	245,260	611,681	56,195	61,628	2,416,045
Intersegment revenue	446,367	70,993	161,502	591,406	223,129	1,493,397
Total revenue	1,887,648	316,253	773,183	647,601	284,757	3,909,442
Operating expenses, including: (-)	(1,771,888)	(349,523)	(802,972)	(653,719)	(275,797)	(3,853,899)
selling and distribution expenses (-)	*(140,332)*	*(14,506)*	*(48,016)*	*(52)*	*(37)*	*(202,943)*
administrative expenses (-)	*(87,896)*	*(31,361)*	*(43,270)*	*(3,747)*	*(12,401)*	*(178,675)*
Other income	7,643	1,162	2,904	2,791	4,471	18,971
Other expenses (-)	(4,495)	(253)	-	(5,472)	(2,695)	(12,915)
Segment's EBIT*	**118,908**	**(32,361)**	**(26,885)**	**(8,799)**	**10,736**	**61,599**
Finance income	-	-	-	-	-	2,121
Finance costs (-)	-	-	-	-	-	(13,126)
Share of profit of equity-accounted investees	-	-	-	-	-	4,218
Profit before tax	**-**	**-**	**-**	**-**	**-**	**54,812**
Income tax	-	-	-	-	-	(13,832)
Net profit	**-**	**-**	**-**	**-**	**-**	**40,980**
EBIT*	118,908	(32,361)	(26,885)	(8,799)	10,736	61,599
Depreciation and amortisation	79,971	18,050	27,383	27,524	35,580	188,508
EBITDA**	**198,879**	**(14,311)**	**498**	**18,725**	**46,316**	**250,107**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' assets and liabilities as at September 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	7,884,741	4,681,492	1,741,582	2,996,523	1,479,141	18,783,479
Unallocated assets	-	-	-	-	-	2,020,687
Investments in associates	-	-	-	-	-	89,271
Total assets	**7,884,741**	**4,681,492**	**1,741,582**	**2,996,523**	**1,479,141**	**20,893,437**
Segment's liabilities	3,904,964	2,380,700	344,176	2,220,901	461,164	9,311,905
Unallocated liabilities	-	-	-	-	-	3,046,623
Total liabilities	**3,904,964**	**2,380,700**	**344,176**	**2,220,901**	**461,164**	**12,358,528**

Operating segments' assets and liabilities as at December 31st 2020 (audited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	6,830,793	4,280,618	1,518,531	2,311,387	1,366,135	16,307,464
Unallocated assets	-	-	-	-	-	1,808,225
Investments in associates	-	-	-	-	-	91,461
Total assets	**6,830,793**	**4,280,618**	**1,518,531**	**2,311,387**	**1,366,135**	**18,207,150**
Segment's liabilities	3,201,045	2,134,096	365,360	1,366,281	552,482	7,619,264
Unallocated liabilities	-	-	-	-	-	2,298,984
Total liabilities	**3,201,045**	**2,134,096**	**365,360**	**1,366,281**	**552,482**	**9,918,248**

(all amounts in PLN '000 unless indicated otherwise)

Geographical areas

Revenue split by geographical areas is determined based on the location of customers.

Revenue

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
Poland	4,884,169	3,784,246	1,832,909	1,240,335
Germany	1,236,880	594,960	484,934	189,295
Other EU countries	2,578,922	2,010,439	896,424	534,670
United Kingdom	268,877	213,503	111,059	64,409
Asia	258,829	303,067	96,463	106,673
South America	277,742	199,818	128,018	94,077
Other countries	911,336	682,630	332,293	186,586
Total	**10,416,755**	**7,788,663**	**3,882,100**	**2,416,045**

No single trading partner accounted for more than 10% of revenue in the three months ended September 30th 2021 and 2020.

3.2. Impairment testing

As at September 30th 2021, one of the triggers listed in paragraph 12d of IAS 36 Impairment of Assets occurred in respect of all of the Group’s non-current assets – the carrying amount of the Group’s net assets was higher than the market capitalisation of the Parent. Therefore, the Parent and the key subsidiaries analysed the validity of the assumptions adopted for the previous impairment tests as at December 31st 2020, and the results of those tests. The analysis showed that:

- the adopted operating strategy and the key assumptions did not change,
- the definition of cash generating units (CGUs) within the Group and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2020,
- the Group’s EBITDA and cash flows for the nine months to September 30th 2021 with respect to the major part of the tested CGUs were higher than those assumed in the impairment tests as at the end of 2020, and the adverse deviations recorded for certain segments were deemed temporary;
- the risk-free interest rate (yield on 10-year Treasury bonds) rose from 1.23% at the end of 2020 to 2.17% at the end of September 2021, driving up the weighted average cost of capital for the Grupa Azoty Group;
- the cost dynamics were to a large extent reflected on the income side.

In the three months ended September 30th 2021, the market environment of the Grupa Azoty Group companies was very volatile and uncertain. At short intervals, prices of raw materials and products soared significantly (by several hundred percent). Due to this strong market volatility it was difficult as at the date of this report to obtain reliable long-term price forecasts. However, the market is expected to stabilise over the long term, and therefore, despite the observed declines in margins on certain product groups, margins to be achieved in the coming years are expected not to differ materially from those assumed in long-term financial projections.

Given the above, it was concluded that the recoverable amount estimates resulting from the previous tests remained valid as at September 30th 2021, and therefore no additional impairment losses needed to be recognised and no indicators existed that any impairment losses on assets recognised in prior periods should be reversed.

For detailed information on the impairment tests and their results, see Note 10 to the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2020.

3.3. Other material changes in the statement of financial position and statement of profit or loss

The PLN 1,329,494 thousand increase in **property, plant and equipment** was attributable mainly to expenditure on non-current assets in relation to the strategic capex project Polimery Police implemented by Grupa Azoty POLYOLEFINS and the implementation of investment projects at Grupa Azoty Puławy.
For information on the implementation of Polimery Police, see Section 3.1 of the Management's discussion and analysis of Grupa Azoty Spółka Akcyjna's performance in the third quarter 2021.

Property rights decreased by PLN 443,060 thousand as emission allowances held at December 31st 2020 were surrendered to offset 2020 emissions and no free CO_2 emission allowances were received for 2021.

The PLN 1,905,894 thousand increase in **trade and other receivables** was attributable mainly to an increase in selling prices.
Given that no CO_2 emission allowances were received free of charge, an estimated value of emission allowances of PLN 1,346,271 thousand was recognised as other receivables (as at December 31st 2020, no such item was recognised).

The PLN 216,653 thousand decrease in **cash and cash equivalents** is the cumulative effect of repayment of reverse factoring liabilities contracted in 2020, financing of higher trade payables with reverse factoring in 2021, and an increase in trade receivables resulting from higher selling prices of products.

The PLN 1,069,603 thousand increase in **borrowings** was mainly attributable to the disbursement of long-term credit facilities granted to finance the Polimery Police project, financing of other capital projects implemented by Group companies and increased use of overdraft facilities.

The PLN 728,920 thousand increase in **trade and other payables** is due mainly to higher prices of key raw materials, lesser use of reverse factoring and recognition of a provision for CO_2 emission allowances, which rose following an increase in emission allowance prices as at September 30th 2021 compared with December 31st 2020.

An item that materially influenced **finance costs** in the nine months ended September 30th 2021 was the effect of measurement of financial instruments hedging the cash flows of the Polimery Police project, entered into accordance in with the requirements of the Credit Facilities Agreement and resulting from the USD-denominated financing and payments in EUR, mainly to the general contractor; hedge accounting may not be applied to these instruments. The measurement of these financial instruments increased the Group's finance costs in the nine months to September 30th 2021 by PLN 106,889 thousand.

(all amounts in PLN '000 unless indicated otherwise)

3.4. Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

	as at Sep 30 2021	as at Dec 31 2020
	unaudited	*audited*
Contingent receivables	30,103	29,960

Contingent liabilities and guarantees/sureties

	as at Sep 30 2021	as at Dec 31 2020
	unaudited	*audited*
Other contingent liabilities, including guarantees	44,402	34,064

For a description of contingent assets and liabilities towards Grupa LOTOS S.A., Hyundai Engineering Co., Ltd and Korea Overseas Infrastructure & Urban Development Corporation under the Shareholders' Agreement, see Notes 21.6 and 21.7 to the consolidated financial statements of the of the Grupa Azoty Group for the 12 months ended December 31st 2020.

3.5. Related-party transactions

Significant related-party transactions

a) **Material related-party transactions executed by the Group on non-arm's length terms**

   In the three and nine months ended September 30th 2021, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

b) **Transactions with members of the Management Board and Supervisory Board of the Parent, their spouses, siblings, ascendants, descendants or other closely related persons**

   During the three and nine months ended September 30th 2021, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, and no agreements other than managerial contracts were signed with members of its management personnel that would require such members to provide benefits to the Group companies.

(all amounts in PLN '000 unless indicated otherwise)

3.6. Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
At beginning of period	**331,566**	**333,085**	**331,458**	**332,884**
Recognised	862	1,023	1	12
Reversed (-)	(452)	(348)	(449)	(135)
Used (-)	(1,040)	(1,250)	(74)	(251)
At end of period	**330,936**	**332,510**	**330,936**	**332,510**

Changes in inventory write-downs

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
At beginning of period	**62,619**	**59,731**	**66,826**	**63,334**
Recognised	32,957	34,573	13,486	12,078
Acquisition of companies	160	-	33	-
Reversed (-)	(7,717)	(10,740)	(4,125)	(5,825)
Used (-)	(22,025)	(24,017)	(10,569)	(9,712)
Exchange differences	37	446	380	118
At end of period	**66,031**	**59,993**	**66,031**	**59,993**

Changes in impairment losses on receivables

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
At beginning of period	**86,252**	**84,477**	**85,747**	**90,223**
Recognised	5,724	14,021	662	1,758
Reversed (-)	(3,638)	(6,094)	-	(2,256)
Used (-)	(2,514)	(2,862)	(794)	(759)
Disposal of companies	1,646	-	1,646	-
Exchange differences	(54)	887	155	1,463
At end of period	**87,416**	**90,429**	**87,416**	**90,429**

3.7. Dividend

On June 30th 2021, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2020, of PLN 125,628 thousand, to the Company's reserve funds.

3.8. Seasonality of operations

Seasonality of operations is seen mainly in the markets for mineral fertilizers.

Mineral fertilizers
The third quarter is the period when demand for fertilizers reaches the lowest level during the year due to the harvest season. A steady increase in demand is usually observed only at the end of the quarter and is related to winter crops sowing at that time. At present, due to the abnormal market situation caused by the skyrocketing gas prices demand for fertilizers was lower than in previous years and its level reflected only current needs of the agricultural sector. The Grupa Azoty Group's policy mitigated the seasonality effect on results through optimum volume allocation within the all-year-round supplies to the distribution network and by selling a part of products on geographical markets with different seasonality patterns.

Titanium white market
Because of its chief application (as a component of paints and varnishes), titanium white is a seasonal product used in structural construction. The demand for titanium white depends on application. It usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn. The first quarter is typically classified as a low season, a run-up to the slow beginning of a high season.

In the case of other Grupa Azoty Group's products, seasonality does not have a material effect on the Group's performance as they represent a small proportion of total output.

3.9. Information on the effects of the COVID-19 pandemic

The Group is constantly monitoring the epidemic situation in Poland and analysing various scenarios relating to the current and projected consequences of the public health emergency which may affect its operations. The analyses and forecasts consider the introduced legislative changes and changes in the market environment.
In order to enable the Company and other Group companies to operate in a possibly smooth manner, procedures have been put in place to mitigate the risk of employees being infected and to ensure appropriate response in case of infection.

The pandemic situation led to changes in the work organisation systems, designed to limit physical contacts between employees in order to minimise the risk of infection.

The Grupa Azoty Group companies provided additional protective and hygienic materials for the employees of the Group, and also enabled employees to do rapid COVID-19 tests in cases of suspected infection or contact with an infected person.

In June 2021, the Grupa Azoty Group organised preventive vaccinations against COVID-19 for employees of the Company and its subsidiaries and for their families.

In the three months to September 30th 2021, the Group was not affected by an increase in employee sick absence rates which would disrupt operations.

In the reporting period, no significant disruptions were recorded in the supply chain of raw materials and products.
In the three months to September 30th 2021, the Group did not report any material adverse effects of the COVID-19 pandemic on its financial results.

In the opinion of the Parent's Management Board, the preventive measures in place help minimise the economic consequences of the COVID-19 pandemic, mitigate the risk of business disruption, and allow the Group to maintain its market position, financial liquidity and ability to implement strategic investment projects.

3.10. Events after the reporting date

Compensation received for 2020

In October 2021, the Group received PLN 133,699 thousand in compensation for 2020, recognised in profit or loss for 2020, on account of the pass-through of the cost of purchasing emission allowances under the Act on a Trading System for Greenhouse Gas Emissions Allowances of June 12th 2015 to the prices of electricity used to make products in energy-intensive sectors and subsectors.

Free CO_2 emission allowances received

On July 7th 2021, the Ministry of Climate and Environment published a list of installations with an allocation of free emission allowances for 2021–2025. The list contains expected allocations of free CO_2 emission allowances to eligible companies of the Grupa Azoty Group.

From September 30th 2021 to the date of issue of this report, the eligible companies of the Grupa Azoty Group received a portion of their allocated free emission allowances of approximately 2.6m tonnes. The eligible companies of the Grupa Azoty Group are expecting to be allocated the remaining free CO_2 emission allowances.

Adoption of Grupa Azoty Strategy for 2021−2030

On October 28th 2021, the Management and Supervisory Boards of the Parent approved the Grupa Azoty Strategy for 2021–2030.

The new Strategy is a response to the major challenges faced by today's chemical industry from the perspective of one of the leading players in the fertilizer and chemical sector in Europe, and it highlights the key role of sustainable development and corporate social responsibility in Grupa Azoty's further growth.

For a description of the general objectives of the Strategy, see Section 3.1 of the Management's Discussion and Analysis. The key objectives of the Strategy were published in Current Report No. 34/2021 of October 28th 2021 and posted on Grupa Azoty's website (https://strategia2030.grupaazoty.com/).

Interim condensed separate financial statements for the three and nine months ended September 30th 2021, prepared in accordance with IFS 34 *Interim Financial Reporting* endorsed by the European Union.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of profit or loss and other comprehensive income

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Jul 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
Profit/loss				
Revenue	1,682,630	1,207,548	688,403	382,392
Cost of sales	(1,455,890)	(984,238)	(621,245)	(314,638)
Gross profit	**226,740**	**223,310**	**67,158**	**67,754**
Selling expenses	(81,703)	(74,862)	(32,789)	(26,176)
Administrative expenses	(144,125)	(127,829)	(45,073)	(40,112)
Other income	54,237	21,679	46,938	4,390
Other expenses	(11,701)	(14,024)	(2,856)	(3,256)
Operating profit	**43,448**	**28,274**	**33,378**	**2,600**
Finance income	148,282	204,401	4,311	13,712
Finance costs	(53,966)	(102,210)	(24,012)	(29,875)
Net finance income/(costs)	**94,316**	**102,191**	**(19,701)**	**(16,163)**
Profit/(loss) before tax	**137,764**	**130,465**	**13,677**	**(13,563)**
Income tax	(7,609)	(13,667)	(1,882)	743
Net profit/(loss)	**130,155**	**116,798**	**11,795**	**(12,820)**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Actuarial gains/(losses) from defined benefit plans	4,562	(2,052)	-	5
Tax on items that will not be reclassified to profit or loss	(867)	390	-	(1)
	3,695	**(1,662)**	**-**	**4**

The supplementary information is an integral part of these interim condensed separate financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of profit or loss and other comprehensive income (continued)

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020	for the period Apr 1 – Sep 30 2021	for the period Apr 1 – Sep 30 2020
	unaudited	*unaudited*	*unaudited*	*unaudited*
Items that are or may be reclassified to profit or loss				
Cash flow hedging - effective portion of fair value changes	546	(51,757)	(18,355)	(11,601)
Income tax relating to items that are or will be reclassified to profit or loss	(104)	9,834	3,487	2,204
	442	**(41,923)**	**(14,868)**	**(9,397)**
Total other comprehensive income	**4,137**	**(43,585)**	**(14,868)**	**(9,393)**
Comprehensive income for the period	**134,292**	**73,213**	**(3,073)**	**(22,213)**
Earnings per share:				
Basic (PLN)	1.31	1.18	0.12	(0.13)
Diluted (PLN)	1.31	1.18	0.12	(0.13)

The supplementary information is an integral part of these interim condensed separate financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of financial position

	as at Sep 30 2021	as at Dec 31 2020
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	1,691,528	1,642,695
Right-of-use assets	37,670	40,332
Investment property	20,481	21,911
Intangible assets	52,738	51,307
Shares	5,706,230	5,706,230
Other financial assets	1,127,525	1,233,971
Other receivables	35,571	32,318
Deferred tax assets	-	3,959
Total non-current assets	**8,671,743**	**8,732,723**
Current assets		
Inventories	250,275	201,730
Property rights	17,661	67,477
Other financial assets	172,291	131,432
Current tax assets	676	10,283
Trade and other receivables	646,877	237,628
Cash and cash equivalents	763,836	464,174
Assets held for sale	95	95
Total current assets	**1,851,711**	**1,112,819**
Total assets	**10,523,454**	**9,845,542**

The supplementary information is an integral part of these interim condensed separate financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of financial position (continued)

	as at Sep 30 2021	as at Dec 31 2020
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(47,045)	(47,487)
Retained earnings	2,176,256	2,042,406
Total equity	**5,043,458**	**4,909,166**
Liabilities		
Borrowings	3,311,514	2,861,537
Lease liabilities	31,757	31,134
Other financial liabilities	28,730	35,141
Employee benefit obligations	65,131	69,917
Provisions	31,250	31,255
Government grants received	50,127	51,505
Deferred tax liabilities	4,630	-
Total non-current liabilities	**3,523,139**	**3,080,489**
Borrowings	1,105,125	1,199,668
Lease liabilities	9,725	13,497
Derivative financial instruments	1,260	1,810
Other financial liabilities	272,832	295,067
Employee benefit obligations	4,942	5,100
Trade and other payables	511,026	328,465
Provisions	10,794	9,608
Government grants received	41,153	2,672
Total current liabilities	**1,956,857**	**1,855,887**
Total liabilities	**5,479,996**	**4,936,376**
Total equity and liabilities	**10,523,454**	**9,845,542**

The supplementary information is an integral part of these interim condensed separate financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of changes in equity

For the nine months ended September 30th 2021

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2021	**495,977**	**2,418,270**	**(47,487)**	**2,042,406**	**4,909,166**
Profit or loss and other comprehensive income					
Net profit	-	-	-	130,155	130,155
Other comprehensive income	-	-	442	3,695	4,137
Comprehensive income for the period	**-**	**-**	**442**	**133,850**	**134,292**
Balance as at Sep 30 2021 (unaudited)	**495,977**	**2,418,270**	**(47,045)**	**2,176,256**	**5,043,458**

For the nine months ended September 30th 2020

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2020	**495,977**	**2,418,270**	**5,872**	**1,920,511**	**4,840,630**
Profit or loss and other comprehensive income					
Net profit	-	-	-	116,798	116,798
Other comprehensive income	-	-	(41,923)	(1,662)	(43,585)
Comprehensive income for the period	**-**	**-**	**(41,923)**	**115,136**	**73,213**
Balance as at Sep 30 2020 (unaudited)	**495,977**	**2,418,270**	**(36,051)**	**2,035,647**	**4,913,843**

The supplementary information is an integral part of these interim condensed separate financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020
	unaudited	*unaudited restated**
Cash flows from operating activities		
Profit before tax	**137,764**	**130,465**
Adjustments for:		
Depreciation and amortisation	106,578	103,248
Impairment losses	478	1,026
(Gain)/loss from investing activities	(43,643)	1,486
Interest, foreign exchange gains or losses	10,319	82,579
Dividends	(99,452)	(182,116)
Fair value (gain)/loss on financial assets at fair value	(16,138)	4,280
(Increase)/decrease in trade and other receivables	(379,278)	9,216
Decrease in inventories and property rights	1,272	48,786
Increase in trade and other payables	868,523	147,370
Increase/(decrease) in inventories	1,181	(5)
Increase/(decrease) in employee benefit obligations	(382)	1,832
Increase in grants	36,452	15,282
Other adjustments	(3,500)	(3,500)
Income tax refunded/(paid)	9,618	(10,373)
Net cash from operating activities	**629,792**	**349,576**

*as described in Section 1.2.d.

The supplementary information is an integral part of these interim condensed separate financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows (continued)

	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2020
	unaudited	*unaudited restated**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	45,156	4,598
Purchase of property, plant and equipment, intangible assets and investment property	(132,628)	(100,869)
Dividend received	70,138	179,108
Proceeds from sale of other financial assets	-	30
Purchase of other financial assets	-	(297,712)
Interest received	11,295	14,169
Loans	-	(573,400)
Repayments of loans	89,879	45,013
Other proceeds/(disbursements)	(1,417)	(2,042)
Net cash from investing activities	**82,423**	**(731,105)**
Cash flows from financing activities		
Proceeds from borrowings	1,607,054	742,117
Repayment of borrowings	(1,247,898)	(88,047)
Interest paid	(40,624)	(53,737)
Payment of lease liabilities	(9,833)	(9,950)
Repayment of reverse factoring liabilities	(729,511)	(314,271)
Other financing cash proceeds/(disbursements)	8,277	(7,949)
Net cash from financing activities	**(412,535)**	**268,163**
Total net cash flows	**299,680**	**(113,366)**
Cash and cash equivalents at beginning of period	**464,174**	**1,158,379**
Effect of exchange rate fluctuations on cash held	(18)	1,690
Cash and cash equivalents at end of period	**763,836**	**1,046,703**

*as described in Section 1.2.d.

The supplementary information is an integral part of these interim condensed separate financial statements.

Supplementary information to the interim condensed separate financial statements

1. Basis of preparation of the interim condensed separate financial statements

1.1. Statement of compliance and general basis of preparation

Grupa Azoty S.A. ("the Company") is a joint stock company with its registered office at ul. Kwiatkowskiego 8, 33-101 Tarnów, Poland. The Company shares are publicly traded on the Warsaw Stock Exchange.

These interim condensed separate financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed separate financial statements of the Company cover the three and nine months ended September 30th 2021 and contain comparative data for the three and nine months ended September 30th 2020 and as at December 31st 2020.

The Company is entered in the Register of Businesses in the National Court Register maintained by the District Court in Kraków, 12th Commercial Division of the National Court Register, under entry No. KRS 0000075450. The Company's REGON number for public statistics purposes is 850002268.

The Company has been established for an indefinite term.

Grupa Azoty's business includes in particular:
- Manufacture of basic chemicals,
- Manufacture of fertilizers and nitrogen compounds,
- Manufacture of plastics and synthetic rubber in primary forms,
- Manufacture of plastic products, and
- Activities of holding companies.

These interim condensed separate financial statements of the Company for the three and nine months ended September 30th 2021 were authorised for issue by the Management Board on November 9th 2021.

The Company has also prepared interim condensed consolidated financial statements for the three and nine months ended September 30th 2021, which were authorised for issue by the Management Board on November 9th 2021.

These interim condensed financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the Company's financial statements for the year ended December 31st 2020, which were authorised for issue on April 12th 2021.

The Company's interim financial results may not be indicative of its potential full-year financial results.

All amounts in these interim condensed separate financial statements are presented in thousands of złoty.

These interim condensed separate financial statements have been prepared on the assumption that the Company will continue as a going concern for the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Company continuing as a going concern.

1.2. Accounting policies and data presentation

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with those applied to draw up the Company's full-year financial statements for the year ended December 31st 2020.

a) Changes in International Financial Reporting Standards

The amendments to International Financial Reporting Standards ("IFRSs") presented below have been applied in these interim condensed separate financial statements as of their effective dates, however, they had no material effect on the disclosed data:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase II.**

The amendments to these standards were issued on August 27th 2020 to complement the first phase of reporting amendments resulting from the reform of interbank reference rates of September 2019. The amendments are effective for annual periods beginning on or after January 1st 2021. Phase II amendments address issues that might affect financial reporting, e.g. relating to valuation of financial instruments and lease liabilities, when an existing interest rate benchmark is replaced with a new benchmark (i.e. replacement issues).

Furthermore, as of January 1st 2021, following endorsement by the European Commission in October 2020, the Company applies the Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions. The amendment was issued on May 28th 2020 and is effective for annual periods beginning on or after June 1st 2020, with earlier application permitted. The amendment to IFRS 16 introduces a practical expedient permitting a lease modification not to be recognised in the event of any changes in lease payments occurring (by June 30th 2021) as a consequence of the COVID-19 pandemic or lessees are granted other concessions changing the original financial terms of leases due the pandemic. No such events occurred in the case of the Company.

January 1st 2021 is the effective date of amendments to IFRS 4, issued on June 25th 2020, to defer the effective date of IFRS 9 Financial Instruments for insurers until January 1st 2023, in accordance with the deferred effective date of IFRS 17 Insurance Contracts.

The application of the above standards had no material effect on the financial statements.

b) New standards and interpretations

The standards and interpretations which have been issued but are not yet effective as they have not been endorsed by the EU, or have been endorsed but the Company has not elected to apply them early:

In these financial statements, the Company has not opted to early apply any standards or interpretations which have been issued but are not yet effective.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but are not effective as at the reporting date:

- **IFRS 17 *Insurance Contracts***

  The new standard was issued on May 18th 2017 and subsequently amended on June 25th 2020, and is effective for annual periods beginning on or after January 1st 2023. Early application is permitted as long as IFRS 15 and IFRS 9 are also applied. The standard supersedes earlier regulations on insurance contracts (IFRS 4). On June 25th 2020, IFRS 4 was also amended to defer the effective date of IFRS 9 *Financial Instruments* for insurers until January 1st 2023.

- **Amendments to IAS 1 *Presentation of Financial Statements*: *Classification of Liabilities as Current or Non-current***

  Amendments to IAS 1 were issued on January 23rd 2020 with its effective date subsequently modified in July 2020, and are effective for annual periods beginning on or after January 1st 2023.

  The amendment redefines the criteria for classifying liabilities as current. The amendment may affect the presentation of liabilities and their reclassification between current and non-current.

- **Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to IFRS Standards 2018–2020.**

  The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. One of the amendments prohibits deducting from the cost of property, plant and equipment of any proceeds from selling items produced while the entity is developing/preparing the asset for its intended use.

- **Amendments to IAS 1 Disclosure of Accounting Policies and IAS 8 Definition of Accounting Estimates**

  The amendments were issued on February 12th 2021, and are effective for annual periods beginning on or after January 1st 2023. The purpose of these amendments is to place greater emphasis on the disclosure of material accounting policies and to clarify how companies should distinguish between changes in accounting policies and changes in accounting estimates.

- **Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions granted after June 30th 2021**

  The amendment to IFRS 16 was issued on March 31st 2021 and is effective for annual periods beginning on or after April 1st 2021. The only purpose of the amendment is to extend by one year (until June 30th 2022) the period in which the granting of COVID-19-related rent concessions does not need to involve a modification of the lease contract. This amendment is closely related to the already effective amendment to IFRS 16, issued in May 2020.

- **Amendment to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities** arising from a Single Transaction

  The amendment to IAS 12 was issued on May 7th 2021 and is effective for annual periods beginning on or after April 1st 2023. The amendments clarify that the exemption relating to initial recognition of deferred tax does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences and entities are required to recognise deferred tax on such transactions. The amendments thus address the emerging doubts as to whether the exemption applies to transactions such as leases and decommissioning obligations.

The IFRSs as endorsed by the EU do not differ materially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, interpretations and amendments thereto, which were not yet adopted by EU Member States as at the date of authorisation of these financial statements for issue.

- IFRS 17 *Insurance Contracts* issued on May 18th 2017, as amended on June 25th 2020,
- Amendments to IAS 1 *Presentation of Financial Statements:* Classification of liabilities as current and non-current, issued on January 23rd 2020, as amended on July 15th 2020,
- Amendments to IAS 1 *Disclosure Initiative* and IAS 8 *Definition of Accounting Estimates*, issued on February 12th 2021.
- Amendment to IFRS 16 *Leases* – COVID-19-Related Rent Concessions granted after June 30th 2021, issued on March 31st 2021,
- Amendment to IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued on May 7th 2021.

The Company will apply the amended standards as of their effective dates set by the EU. As at the date of these financial statements, the Company did not complete its assessment of the effect of applying the amended standards on its financial statements.

c) Accounting estimates and judgments

The preparation of the interim separate and consolidated financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and other factors deemed reasonable under the circumstances, and their results provide a basis for judgements regarding the net carrying amounts of assets and liabilities, where they are not directly available from other sources. Actual results may differ from these estimates.
Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the change is made or in current and future periods if the change in estimates affects both the current period and the future periods.
The key judgements and estimates made by the Management Board in preparing these interim condensed separate financial statements were the same as those made in preparing the separate financial statements for the financial year ended December 31st 2020.

CO_2 emission allowances

The Company has received (a part of) and expects to receive the remaining free CO_2 emission allowances covering part of its CO_2 emissions from production processes and heat generation. The allowances expected to be received in connection with the 2021 emissions were recognised as other receivables.
For detailed information, see Note 13 Trade and other receivables to the interim condensed separate financial statements for the six months ended June 30th 2021. The amount of receivables under allowances expected to be received for 2021 was remeasured at market prices as at September 30th 2021.

d) Presentation changes

Following changes in the presentation of data on the effect of changes in statement of financial position items in the statement of cash flows as at December 31st 2020, in order to provide more detailed information by presenting the effect of changes in the individual items of the statement of financial position instead of aggregated data, the Company presents below data restated accordingly as at September 30th 2020.

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows

	for the period Jan 1 – Sep 30 2020	Change	for the period Jan 1 – Sep 30 2020 restated
Cash flows from operating activities			
Profit before tax	**130,465**	**-**	**130,465**
Adjustments for:			
Depreciation and amortisation	103,248	-	103,248
Impairment losses	1,026	-	1,026
Loss on investing activities	1,486	-	1,486
Interest, foreign exchange gains or losses	82,579	-	82,579
Dividends	(182,116)	-	(182,116)
Fair value loss on financial assets at fair value	4,280	-	4,280
Decrease/(Increase) in trade and other receivables	13,151	(3,935)	9,216
Decrease in inventories and property rights	48,786	-	48,786
Increase/(Decrease) in trade and other payables	186,694	(39,324)	147,370
Decrease in provisions, accruals and government grants	(26,150)	26,150	-
Decrease in provisions	-	(5)	(5)
Increase in employee benefit obligations	-	1,832	1,832
Increase in grants	-	15,282	15,282
Other adjustments	(3,500)	-	(3,500)
Income tax paid	(10,373)	-	(10,373)
Net cash from operating activities	**349,576**	**-**	**349,576**

(all amounts in PLN '000 unless indicated otherwise)

	for the period Jan 1 – Sep 30 2020	Change	for the period Jan 1 – Sep 30 2020 restated
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, intangible assets and investment property	4,598	-	4,598
Purchase of property, plant and equipment, intangible assets and investment property	(100,869)	-	(100,869)
Dividend received	179,108	-	179,108
Purchase of other financial assets	(297,712)	-	(297,712)
Proceeds from sale of other financial assets	30	-	30
Interest received	14,169	-	14,169
Loans	(573,400)	-	(573,400)
Repayments of loans	45,013		45,013
Other cash used in investing activities	(2,042)	2,042	-
Other proceeds/(disbursements)	-	(2,042)	(2,042)
Net cash from investing activities	**(731,105)**	**-**	**(731,105)**
Cash flows from financing activities			
Proceeds from borrowings	742,117	-	742,117
Repayment of borrowings	(88,047)	-	(88,047)
Interest paid	(53,737)	-	(53,737)
Payment of lease liabilities	(9,950)	-	(9,950)
Repayment of reverse factoring liabilities	(314,271)	-	(314,271)
Other cash provided by financing activities	1,307	(1,307)	-
Other cash used in financing activities	(9,256)	9,256	-
Other financing cash proceeds/(disbursements)	-	(7,949)	(7,949)
Net cash from financing activities	**268,163**	**-**	**268,163**
Total net cash flows	**(113,366)**	**-**	**(113,366)**
Cash and cash equivalents at beginning of period	**1,158,379**	**-**	**1,158,379**
Effect of exchange rate fluctuations on cash held	1,690	-	1,690
Cash and cash equivalents at end of period	**1,046,703**	**-**	**1,046,703**

2. Supplementary information

2.1. Impairment testing

As at September 30th 2021, one of the triggers listed in paragraph 12d of IAS 36 Impairment of Assets occurred in respect of all of the Company's non-current assets – the carrying amount of the Company's net assets was higher than its market capitalisation. Therefore, the Company analysed the validity of the assumptions adopted for the previous impairment tests as at December 31st 2020, and the results of those tests. The analysis showed that:

- the adopted operating strategy and the key assumptions did not change,
- the definition of cash generating units (CGUs) within the Company and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2020;
- the Company's EBITDA and cash flows for the nine months to September 30th 2021 were, for the CGU Plastics, higher than those assumed and, for the Fertilizers CGU, lower than those assumed in the impairment tests as at the end of 2020, and the adverse deviations recorded for the Fertilizers CGU were deemed temporary;
- the risk-free interest rate (yield on 10-year Treasury bonds) rose from 1.23% at the end of 2020 to 2.17% at the end of September 2021, driving up the weighted average cost of capital for the Grupa Azoty Group;
- the cost dynamics were to a large extent reflected on the income side.

In the three months to September 30th 2021, the Company's market environment was very volatile and uncertain. At short intervals, prices of raw materials and products soared significantly (by several hundred percent). Due to this strong market volatility it was difficult as at the date of this report to obtain reliable long-term price forecasts. However, the market is expected to stabilise over the long term, and therefore, despite the observed declines in margins on certain product groups, margins to be achieved in the coming years are expected not to differ materially from those assumed in long-term financial projections.

Given the above, it was concluded that the recoverable amount estimates resulting from the previous tests remained valid as at September 30th 2021, and therefore no additional impairment losses needed to be recognised and no indicators existed that any impairment losses on assets recognised in prior periods should be reversed.

For detailed information on the impairment tests and their results, see Note 10 to the separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2020.

2.2. Information on the effects of the COVID-19 pandemic

For information on the effects of the COVID-19 pandemic on the Company and the Group, see Note 3.9 to the interim condensed consolidated financial statements of the of the Grupa Azoty Group for the three and nine months ended September 30th 2021.

2.3. Additional information

The PLN 299,662 thousand increase in **cash and cash equivalents** and the PLN 449,977 thousand increase in long-term **borrowings** was attributable, among others, to the disbursement of final tranches of the long-term credit facilities from the EIB and the EBRD in the third quarter of 2021, allocated to the financing of investment and research and development projects.

Property rights decreased by PLN 49,816 thousand as emission allowances held at December 31st 2020 were surrendered by the Company to offset 2020 emissions and no free CO_2 emission allowances were received for 2021.
Under **trade and other receivables**, other receivables include a free allocation of CO_2 emission allowances expected to be received, in the amount of PLN 144,075 thousand (as at December 31st 2020, no such item was recognised).

The PLN 182,561 thousand increase in short-term **trade and other payables** was attributable mainly to higher prices of key raw materials and an increase in the provision for CO_2 emissions reflecting higher market prices of CO_2 emission allowances.

(all amounts in PLN '000 unless indicated otherwise)

The value of the right and obligation to repurchase Grupa Azoty POLYOLEFINS shares from non-controlling shareholders, i.e., the call and put options, measured as at September 30th 2021 was as follows:

Instrument	Total valuation	Company interest (47%)	Grupa Azoty POLICE interest (53%)
Call option (financial asset)	101,151	47,541	53,610
Put option (financial liability)	32,282	15,173	17,109

The effect of measurement of the financial instruments referred to above on the Company's profit before tax in the nine months ended September 30th 2021 was PLN 8,064 thousand.
For detailed information on the transactions, see Note 30.6 on derivative financial instruments in the separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2020.

2.4. Events after the reporting date

Compensation received for 2020
In October 2021, the Company received PLN 21,946 thousand in compensation for 2020, recognised in profit or loss for 2020, on account of the pass-through of the cost of purchasing emission allowances under the Act on a Trading System for Greenhouse Gas Emissions Allowances of June 12th 2015 to the prices of electricity used to make products in energy-intensive sectors and subsectors.

Free CO_2 emission allowances received
On July 7th 2021, the Ministry of Climate and Environment published a list of installations together with an annual number of emission allowances allocated for 2021–2025. The list contains expected allocations of free CO_2 emission allowances to the Company and other eligible companies of the Grupa Azoty Group.
From September 30th 2021 to the date of issue of this report, the Company received a portion of its allocated free emission allowances of approximately 48,093 tonnes. The Company is expecting to be allocated the remaining free CO_2 emission allowances.

Adoption of Grupa Azoty Strategy for 2021−2030
On October 28th 2021, the Management and Supervisory Boards of the Parent approved the Grupa Azoty Strategy for 2021–2030.

The new Strategy is a response to the major challenges faced by today's chemical industry from the perspective of one of the leading players in the fertilizer and chemical sector in Europe, and it highlights the key role of sustainable development and corporate social responsibility in Grupa Azoty's further growth.

For a description of the general objectives of the Strategy, see Section 3.1 of the Management's Discussion and Analysis. The key objectives of the Strategy were published in Current Report No. 34/2021 of October 28th 2021 and posted on Grupa Azoty's website (https://strategia2030.grupaazoty.com/).

Management's discussion and analysis of Grupa Azoty Spółka Akcyjna's performance in Q3 2021

1. General information on the Grupa Azoty Group

1.1. Organisation and structure

The Grupa Azoty Group is one of Central Europe's major chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products, and other chemicals.

Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical group and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.

As at September 30th 2021, the Grupa Azoty Group (the "Group") comprised: S.A.Grupa Azoty S.A. (the Parent) and nine direct subsidiaries together with companies included in their respective groups.

Parent

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group. Its principal business activities include manufacturing, trading in and service activities related to nitrogen fertilizers, engineering plastics and intermediates.

The Company operates its own research facilities, concentrating both on research into new products and technologies, and on advancing existing products.

The Company's registered office is located at ul. Eugeniusza Kwiatkowskiego 8, Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna. Its history goes back to 1927, when Państwowa Fabryka Związków Azotowych was established in Mościce, a township later incorporated into Tarnów. The plant's construction was one of the largest investment projects undertaken in the Republic of Poland after it regained independence in 1918.

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna

The company's registered office is located in Puławy.

Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna ("Grupa Azoty PUŁAWY") specialises in the production of nitrogen fertilizers and is also one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company's registered office is located in Police.

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna ("Grupa Azoty POLICE") is a major producer of compound fertilizers, nitrogen fertilizers and titanium white.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

The company's registered office is located in Kędzierzyn-Koźle.

The business of Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna ("Grupa Azoty KĘDZIERZYN") is based on two pillars: nitrogen fertilizers and OXO products (OXO alcohols and plasticizers).

COMPO EXPERT Holding GmgH

The company's registered office is located in Münster, Germany.

COMPO EXPERT Holding GmbH ("COMPO EXPERT") is a holding company for a group of subsidiaries, including the main operating company COMPO EXPERT GmbH, one of the world's largest manufacturers of speciality fertilizers for professional customers. The group's products are sold in many countries in Europe, Asia, Africa, as well as North and South Americas.

Grupa Azoty ATT Polymers GmbH

The company's registered office is located in Guben, Germany.

Grupa Azoty ATT Polymers GmbH ("Grupa Azoty ATT POLYMERS") manufactures polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

The services of Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty PKCh") encompass comprehensive design support for investment projects in the chemical industry − from study and concept work to engineering design, building permit design and working plans, to services provided during the construction, commissioning and operation of process units.

(all amounts in PLN '000 unless indicated otherwise)

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty KOLTAR") is a nationwide provider of railway services. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of dangerous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna

The company's registered office is located in Grzybów.

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna ("Grupa Azoty SIARKOPOL") is Poland's largest producer of liquid sulfur.

Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

The business model of Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty COMPOUNDING") is based on a portfolio of specialised engineering plastics manufactured through the compounding of plastics, with the use of innovative technological solutions. The company manufactures and sells modified plastics.

Parent's shareholdings in subsidiaries as at September 30th 2021

(in relevant currency)

Company	Registered office/address	Share capital	Equity interest (%)
COMPO EXPERT	Krögerweg 1048155, Münster, Germany	EUR 25,000	100.00
Grupa Azoty ATT POLYMERS	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty COMPOUNDING	ul. Chemiczna 11, 833-101 Tarnów, Poland	PLN 72,007,700	100.00
Grupa Azoty SIARKOPOL	Grzybów 28-200 Staszów	PLN 60,620,090	99.56
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 1324-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163, 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty PKCH	ul. Kwiatkowskiego 733-101 Tarnów, Poland	PLN 85,630,550	63.27
Grupa Azoty POLICE	ul. Kuźnicka 172-010 Police, Poland	PLN 1,241,757,680	62.86
Grupa Azoty KOLTAR	ul. Kwiatkowskiego 8, 33-101 Tarnów	PLN 54,600,000	60.00

The Parent and its subsidiaries as at September 30th 2021

1 **Parent**

Grupa Azoty
100%

Grupa Azoty PKCh
63.27%

Grupa Azoty KOLTAR
60%

2 Grupa Azoty PUŁAWY
95.98%

3 Grupa Azoty POLICE
62.86%

4 Grupa Azoty KĘDZIERZYN
93.48%

5 Grupa Azoty SIARKOPOL
99.56%

6 Grupa Azoty ATT POLYMERS
100%

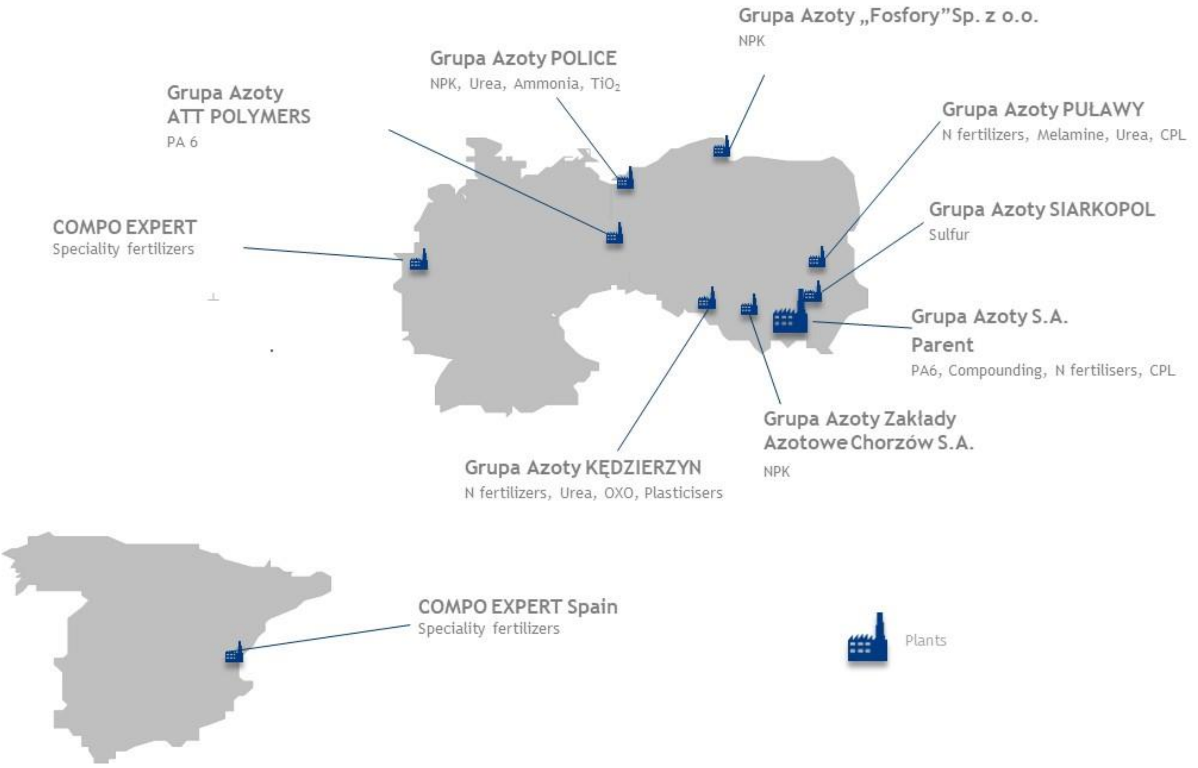
7 COMPO EXPERT
100%

Source: Company data

1.2. Business segments

The Group is the largest chemical group in Poland and a significant player in Central Europe. It offers mineral fertilizers and B2B products, including engineering plastics, OXO products and melamine.

Grupa Azoty – core business areas



Source: Company data.

The Group's business is divided into the following segments:
- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities.

Agro Fertilizers

Mineral fertilizers are the key area of the Group's business. The Agro Fertilizers segment manufactures nitrogen and compound fertilizers, as well as speciality fertilizers, Ammonia and other nitrogen-based intermediate products.

The segment's manufacturing activities are conducted by the companies based in Tarnów (the Parent), Puławy, Kędzierzyn, Police, Gdańsk, Chorzów, as well as Germany and Spain. The Group is Poland's largest and European Union's second largest manufacturer of mineral fertilizers.

Plastics

The segment's key products are engineering plastics (polyamide 6 (PA6) and modified plastics) and auxiliary products, such as caprolactam and other chemicals.

They are manufactured by three companies – in Tarnów, Puławy, and Guben (Germany). The Group is the leading manufacturer of PA6 in Poland and the third largest producer of this polyamide in the European Union.

Chemicals

The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, AdBlue®, and other products.

They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Grupa Azoty Group is the third largest manufacturer of melamine in the EU. The Group is Poland's only producer of OXO alcohols and plasticizers. It is EU's No. 4 producer of OXO alcohols and No. 5 producer of plasticizers. The Group is Poland's only producer of titanium white.

Energy

The segment operates mostly for the needs of the Group's production plants. Part of the electricity and heat produced by the Energy segment is sold locally, to customers in the immediate vicinity of the Group companies' plants.

The Group companies operate their own energy and energy carrier distribution networks, through which they supply their local customers.

Other Activities

The Other Activities segment comprises auxiliary and support services. As in the case of the Energy segment, its services are mainly rendered for the Group companies. Outside the Group, the segment mainly provides maintenance (automation, design, repair, etc.) and logistics services (road transport, rail transport, ports), and conducts manufacturing at the Catalyst Production Plant. The segment is also involved in various operations in such areas as environmental protection, administration, research, and infrastructure management.

1.3. Overview of key products

AGRO FERTILIZERS

The Group classifies **mineral fertilizers** as nitrogen (single-nutrient) fertilizers and compound fertilizers, the latter including at least two of the following key nutrients: nitrogen (N), phosphorus (P) or potassium (K), as well as speciality fertilizers.

Nitrogen fertilizers

Nitrogen fertilizers are substances or mixtures of substances where nitrogen is the primary plant nutrient. The Group's product range includes a number of nitrogen fertilizers: urea, nitrate fertilizers (including ammonium nitrate, calcium ammonium nitrate, liquid nitrogen fertilizers (UAN) and nitrogen-sulfur fertilizers (made as a result of mixing fertilizers in the manufacturing process: ammonium sulfate nitrate, solid and liquid mixtures of urea and ammonium sulfate, and ammonium sulfate). Natural gas is the key feedstock for nitrogen fertilizers production.

Urea

Urea is a nitrogen fertilizer containing 46% nitrogen; it is produced in Puławy (as PULREA®), Police (as mocznik.pl®), and Kędzierzyn. Urea is a universal fertilizer – it can be used for all crops at various growth stages, both in the granular form and as a solution.

The Group's portfolio also includes Pulrea® +INu, which is urea with an addition of urease inhibitor (NBPT), which increases the absorption of nitrogen from the fertilizer. The fertiliser is a stable source of nitrogen for plants.

Outside agriculture, urea is used for technical purposes, mainly for manufacturing of adhesive resins, which find application in the wood-based panel industry. It may also be further processed into urea-ammonium nitrate solution (UAN − RSM®), a liquid fertilizer, or into melamine.

Nitrate fertilizers

- Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, Containing between 30% and 34% nitrogen. The Group offers this product in a wide variety of granule forms and sizes, such as mechanically granulated ZAKsan®, with excellent sowing properties; the PULAN® beaded ammonium nitrate,

- Calcium ammonium nitrate (CAN) is a nitrogen fertilizer with a nitrogen content of up to 27%. It is a universal fertilizer, suitable for all types of soil, well soluble and easily absorbed by crops. The Group markets CAN in a number of granule varieties; the offering includes the granulated Salmag® fertilizers (including varieties with a sulfur or boron content), and bead fertilizers such as Saletrzak 27 (CAN 27) standard and Saletrzak 27 with boron.
- Urea-ammonium nitrate solution (UAN – RSM®) is a liquid nitrogen fertilizer coming in three varieties: with 32%, 30% and 28% nitrogen content. Thanks to its form, RSM® is easily absorbed by plants. It is also produced with an admixture of sulfur, as UAN–RSM®S.

Nitrogen-sulfur fertilizers

These fertilizers improve sulfur content in the soil, enhance arable crops' ability to absorb nitrogen, and thus increase the quality and volume of crops.

- PULGRAN®S – urea-ammonium sulfate, is a nitrogen fertilizer with sulfur in the form of white hemispherical pastilles, obtained by blending urea and ammonium sulfate. It is manufactured in two varieties with various contents: 37% nitrogen/21% sulfur and 33% nitrogen/31% sulfur.
- Saletrosan®, or ammonium sulfate nitrate, is a nitrogen fertilizer with sulfur, obtained by blending ammonium nitrate and ammonium sulfate. Saletrosan® 26 contains 26% nitrogen and 13% sulfur. The product may also include small amounts of iron and magnesium – Saletrosan® 26 Plus, and boron – Saletrosan® 26 with boron. Saletrosan® 30 has different proportions of main components: 30% nitrogen and 6% sulfur. Saletromag® contains 25% nitrogen, 7% sulfur and 6% total magnesium oxide. The product contains small amounts of iron which increase the fertilizer's resistance to high temperatures.
- Polifoska® 21 is a nitrogen fertilizer with sulfur, a mixture of ammonium sulfate-urea containing 21% nitrogen and 33% sulfur.
- Ammonium sulfate, marketed under the trade names AS 21 and Pulsar®, is a simple nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam and in flue gas desulfurisation. The Group manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard, and crystalline.
- PULASKA® is a liquid nitrogen fertilizer with sulfur, obtained by blending urea and ammonium sulfate, and has a 20% nitrogen and a 6% sulfur content.

Compound fertilizers (NPK, NP)

NPK and NP compound fertilizers are universal fertilizers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components − nitrogen (N), phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron or zinc.

Compound fertilizers may be used to provide nutrients to all types of arable crops. The Group's current offering includes more than 40 grades of compound fertilizers, which are marketed under the following trade names: Polifoska®, Polidap®, Polimag® Superfosfat, Amofoska®, etc. The Group also offers dedicated fertilizers, custom-made to satisfy customers' specific requirements.

Speciality fertilizers

Speciality fertilizers are designed to meet the requirements of various sectors, including fruit and vegetable growing, horticulture or maintenance of green areas. In addition to the primary components − nitrogen (N), phosphorous (P) and potassium (K), such fertilizers also contain secondary nutrients and microelements. They may also contain inhibitors that reduce nutrient leaching.

Available in solid (coated or uncoated) or in liquid form, this product range also includes fertigation and foliar fertilizers.

Currently, they are marketed under a number of trade names, including Azoplon Nutri, Azoplon Opti, Fertiplon, Blaukorn®, NovaTec®, Hakaphos®, Basfoliar®, Easygreen®, DuraTec®, Basacote®, Floranid®Twin.

Ammonia

Ammonia is a feedstock for the manufacture of fertilizers, produced in a process of direct synthesis of nitrogen and hydrogen. Ammonia is the basic intermediate product used to manufacture nitrogen fertilizers and compound fertilizers. It is also used in the chemical industry, e.g. for the manufacturing of caprolactam or polymers, or as a cooling agent. Natural gas is the key feedstock for the production of ammonia.

PLASTICS

Engineering plastics

Engineering plastics exhibit high thermal resistance and good mechanical properties. The wide range of the plastics' beneficial properties makes them a product of choice for many industries, including automotive, construction, electrical engineering, household appliances, and the food and textile industries.

The Group manufactures polyamide 6 and modified plastics (with admixtures affecting the physical and chemical properties of the final plastics) based on polyamide 6 and other engineering plastics (PP, PBT, PA6.6). It also offers modified plastics, custom-made to meet the requirements of individual customers.

Polyamide 6 (PA 6)

Polyamide 6 (PA6) is a high quality thermoplastic in granular form used for injection processing. It is the leading product among engineering plastics. The Group's very popular brands in this segment are Tarnamid® and Alphalon®.

Caprolactam

An organic chemical compound And an intermediate product used for the manufacture of polyamide 6. It is produced mainly from benzene and phenol. Synthesis of caprolactam yields ammonium sulfate as a by-product.

CHEMICALS

OXO products

OXO alcohols manufactured by the Grupa Azoty Group: OXO ALCOHOLS 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

2-ethylhexanol (2-EH) is used in the manufacture of plasticizers, paints and varnishes as well as in the textile industry and oil refining processes. It is also applied as a solvent for vegetable oils, animal fats, resins, waxes and petrochemicals.

Plasticizers manufactured by the Grupa Azoty Group:

- DEHT/DOTP. It is used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes. The Group’s DEHT/DOTP is marketed under the Oxoviflex® brand. It is used in plastics processing as a non-phthalic plasticizer as well as in the manufacture of paints and varnishes. It is also widely applied for the production of floor tiles and wall cladding as well as toys for children.
- DBTP/DBT. It is a plasticizer characterised by quick plastification of polymers and low migration, giving higher flexibility to finished products. Due to these properties, DBTP/DBT is used in the production of PVC flooring as a functional plasticizer in combination with Oxoviflex®, as well as in the production of adhesives, seals, and inks. The Group’s DBTP/DBT is marketed under the Oxofine™ DBT brand.
- DEHA/DOA. It is a high quality bis(2-ethylhexyl) adipate which is recommended for the manufacture of food contact materials (particularly PVC food wrapping film) due to its very good plastifying properties and the fact that it maintains its properties in low-temperature applications and has a safe toxicological profile. The Group markets its DEHA/DOA under the Oxofine™ DOA brand. The product is also used in the manufacture of garden hoses, cables and coated fabrics. Depending on the application, it may be used as the main plasticizer or a functional plasticizer in combination with Oxoviflex®. Besides its application in PCV processing, Oxofine™ DOA is also recommended as a solvent for the cosmetics industry, for use in nitrocellulose and synthetic rubber plasticisation, and in the manufacturing of lacquers.

Sulfur

The product offered by Grupa Azoty is mined sulfur. Sulfur is mainly used to produce sulfuric acid, which is widely used in the chemical industry, for instance to produce DAP, a two-component fertilizer. The product is offered in various forms. For the Group's own needs, sulfur is also purchased from other suppliers who obtain it as a by-product from flue gas desulfurisation or crude oil refining.

Melamine

A non-toxic, non-flammable product in the form of a white powder, used for the production of synthetic resins, thermosetting plastics, adhesives, paints, varnishes (including furnace varnishes), auxiliary materials for the textile industry, fire retardants, and other.

SOURCES OF STRATEGIC RAW MATERIALS

For the most part, the Group procures its raw materials, merchandise and services on the domestic and EU markets. Certain raw materials (phosphate rock, slag, potassium chloride) are purchased from non-EU suppliers. Raw materials supplied by the Group companies, i.e. ammonia and to some extent sulfur, account for a significant share of the total raw materials procured by the Group.

Ammonia

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The Grupa Azoty Group is the largest ammonia manufacturer in Poland and CEE, operating several ammonia units. It is also one of the largest consumers of ammonia in the region, with a significant potential in logistics.

Having satisfied its own needs, the Group sells a surplus on the market. The Group's ability to effectively secure ammonia supplies largely depends on conditions prevailing on the fertilizer market and in the natural gas sector.

Benzene

Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. The benzene market is largely driven by the situation on the crude oil market and the demand–supply balance on global markets, particularly the level of demand for benzene outside Europe.

Electricity

The Group purchases electricity from major Polish suppliers trading with large accounts. Following a number of tenders for 2021, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy is to purchase electricity under forward contracts concluded for various periods and on the SPOT market, including on the Polish Power Exchange.

Phenol

The procurement strategy is based primarily on supplies from the domestic and the EU markets, with deliveries from outside Europe covering deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers. In 2019, the Grupa Azoty Group increased its internal storage capacities, thus optimising the phenol supply chain.

Phosphate rock

Phosphate rock is purchased under annual contracts, chiefly from North African and West African producers, given the mineral's abundance in the region and the well-developed local sea logistics infrastructure. The situation on the phosphorite market is to a large extent driven by the situation in the fertilizers sector. The Group has in place a joint phosphate rock purchase programme for Grupa Azoty POLICE and Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o.

Natural gas

High-methane gas and gas from local sources was supplied by PGNiG S.A. under long-term contracts.

Propylene

The bulk of the Group's purchases of propylene are made under annual contracts, with supplementary purchases made on the spot market. To a large extent, propylene prices are driven by oil prices. The Group pursues a diversified procurement strategy, based chiefly on supplies from the EU and countries east of Poland. Supplies from the latter largely reduce the overall cost of propylene procurement.

Sulfur

The Group is the largest producer and consumer of liquid sulfur on the domestic market and in the region. Its sulfur procurement strategy is based on optimising intragroup supplies (from Grupa Azoty SIARKOPOL) and on supplies from the petrochemical sector. This approach gives the Group considerable procurement flexibility, and significantly reduces the risk of supply shortages. With a centralised sulfur procurement strategy in place (a joint purchase programme for the entire Group), the Group is able to aggregate the supply volumes and reduce the cost of this raw material.

Potassium chloride

With substantial natural resources and competitive commercial terms, producers from the Commonwealth of Independent States, as well as Canada and Germany, are the primary suppliers of potassium chloride. The Group's procurement strategy is chiefly based on quarterly framework agreements, The Group pursues a centralised procurement strategy by making joint purchases for Grupa Azoty POLICE and Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o.

Coal

The Group purchases coal mainly on the domestic market. Purchasing large volumes of coal of the required quality from geographically remote markets is not economically viable given the transport costs and price formulae (ARA – a price benchmark for coal delivered at the ports of Amsterdam, Rotterdam and Antwerp).

On the domestic market, the prices of pulverised coal used in power generation are not directly linked to ARA prices, which only serve as pricing benchmarks for Polish coal producers.

Since 2018, the Group companies follow a strategy of purchasing coal under multi-year contracts with a guaranteed price change range. Such long-term contracts cover all of the Group's needs for coal supplies.

2. Financial position of the Group

2.1. Assessment of factors and one-off events having a material impact on the Group's operations and financial performance

Exchange rates

With respect to factors and events with a bearing on the Group's financial performance in the third quarter of 2021, it should be noted that the volatility of the currency market remained increased, with periods of strengthening in response to positive information about lifting COVID-related restrictions and accelerating economic growth in Poland and globally. At the same time, the weakening of the Polish currency is driven by the prospects of another wave of the pandemic, coupled with disruptions on the supply markets and a growing speculative bubble in energy markets accelerating domestic and global inflation.

All in all, in the third quarter of 2021 the Polish currency weakened by approximately 2.5% against the euro and by 5.0% against the US dollar relative to June 30th 2021. The average PLN/EUR exchange rate in the third quarter of the year fell by approximately 0.7% on the second quarter of 2021, while the average PLN/USD exchange rate decreased by about 3.0%.

As the combined movements in the average PLN/EUR exchange rate were limited and the PLN/USD exchange rate followed the development of the EUR/USD exchange rate, they did not significantly affect the Group's performance in the first nine months of 2021.

The Group reduces the risk resulting from its currency exposure by using relevant instruments and taking measures to hedge against the currency risk based on the current and planned currency exposure. In the reporting period, the main hedging tools used by the Group included natural hedging, factoring and discounting of foreign currency receivables, and currency forwards entered into on a rolling basis to cover up to 80% of the remaining currency exposure with time horizons of less than 6 months, up to 50% of the remaining currency exposure with time horizons between 6 and 12 months, and up to 25% of the remaining currency exposure with time horizons between 12 and 24 months.

The Group has a physical EUR cash pooling structure in place that allows the Group companies to use the Group's global liquidity limit in that currency, which further reduces their exposure to the currency risk in the euro by correcting mismatches in revenue and expenditure over time.

In the three months ended September 30th 2021, the Grupa Azoty Group entered into FX forward contracts for the sale of EUR and USD, executed in the periods of depreciation of PLN, to supplement hedges in line with its planned exposure in both currencies.

The net result posted by the Group (excluding Grupa Azoty POLYOLEFINS) on hedging transactions settled in the nine months to September 30th 2021 was a loss of PLN 522 thousand, with the net result on remeasurement of hedging instruments positive at PLN 208 thousand.

The overall net result of the Group (excluding Grupa Azoty POLYOLEFINS) on the settlement of hedging transactions and remeasurement of FX hedging instruments in the nine months ended September 30th 2021 was negative at PLN -314 thousand.

In the nine months ended September 30th 2021, Grupa Azoty POLYOLEFINS entered into FX forward contracts to buy EUR for USD and PLN for USD to hedge the expected expenditure in EUR and PLN under contractual payments for the Polimery Police project, to be covered from disbursements under the term facility. The FX forwards were the target security required under the Credit Facilities Agreement. They are a continuation of the temporary security executed in 2020.

As at September 30th 2021, Grupa Azoty POLYOLEFINS had the following open contracts:

- FX forward to buy approximately EUR 220m for USD (hedging expenditure planned to the covered with proceeds from the term facility made available under the Credit Facilities Agreement in USD),
- FX forward to buy approximately PLN 191m for USD (hedging expenditure planned to be covered with proceeds from the term facility made available under the Credit Facilities Agreement in USD).

The FX forwards to purchase PLN for USD were designated for the purpose of cash flow hedge accounting.

As at September 30th 2021, the total result on the measurement of open FX forwards executed by Grupa Azoty POLYOLEFINS was PLN -77,969 thousand, including PLN -16,161 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Grupa Azoty POLYOLEFINS' interest rate risk

In the nine months ended September 30th 2021, Grupa Azoty POLYOLEFINS entered into IRSs with a zero floor whereby positive values of EURIBOR and USD LIBOR are exchanged for a fixed interest rate. The contracts hedge the planned interest expense on the term facility made available under the Credit Facilities Agreement. They constitute security required under the Credit Facilities Agreement.

As at September 30th 2021, Grupa Azoty POLYOLEFINS had the following open contracts:

- IRS with a zero floor on EURIBOR for a maximum notional amount of approximately EUR 370m (the notional amounts increase as drawdowns are made and are then amortised in accordance with Grupa Azoty POLYOLEFINS' expectations regarding the repayment of the term facility under the Credit Facilities Agreement in EUR),
- IRS with a zero floor on USD LIBOR for a maximum notional amount of approximately USD 408m (the notional amounts increase as drawdowns are made and are then amortised in accordance with Grupy Azoty POLYOLEFINS' expectations regarding the repayment of the term facility under the Credit Facilities Agreement in USD).

The transactions hedging interest rate risk were designated for the purpose of cash flow hedge accounting.

As at September 30th 2021, the notional amount of the transactions hedging interest rate risk was higher than the actual amount of debt outstanding under the term facility. As a result, the hedge relationship for that part of the hedging instruments' notional amount which was not covered by the hedged item was de-designated. A part of the fair value measurement of IRS and Floor contracts was reclassified to profit or loss. Only the measurement amount resulting from the effective portion of the hedge was charged to equity.

As at September 30th 2021, the total result on the measurement of open IRS transactions with a zero floor executed by Grupa Azoty POLYOLEFINS was PLN -14,508 thousand, including PLN -15,019 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Commodity risk

In the reporting period, Grupa Azoty POLYOLEFINS entered into commodity swaps hedging purchase prices of precious metals (platinum and palladium) purchased by the Company. All commodity risk hedging transactions held by the Company were settled in the three months ended March 31st 2021.

Commodity risk hedging transactions were fully designated for the purpose of cash flow hedge accounting.

Foreign currency derivatives and hedge accounting

As at September 30th 2021, the notional amount of Grupa Azoty Group's open foreign currency derivatives (FX Forward) was EUR 86.1m (maturing in the fourth quarter of 2021 and in 2022) and EUR 7m under options, maturing in the period October 2021 to December 2022, entered into by Grupa Azoty POLICE.

The total value of the Grupa Azoty Group's open currency derivatives amounted to EUR 93.1m.

In addition, Grupa Azoty POLICE held open currency derivatives (FX forwards) to exchange EUR 1m for USD, to be settled in October 2021.

In the case of USD, the notional amount of Grupa Azoty Group's open FX forwards was USD 12m, with maturities in the fourth quarter of 2021 and in 2022.

Such contracts are only entered into with reliable banks under master agreements. All the contracts reflect physical cash flows in foreign currencies. Currency forwards and derivative contracts are executed to match the Group's net currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

Hedge accounting

The Grupa Azoty S.A. Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from October 2021 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 72,648 thousand as at September 30th 2021, repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 138,334 thousand as at September 30th 2021, repayable in the period from September 2021 to April 2029 in 16 half-yearly instalments: the first instalment of EUR 6,666 thousand, 14 instalments of EUR 9,666.7 thousand each, and the last instalment of EUR 3,000 thousand.

As at September 30th 2021, the carrying amount of both these credit facilities was PLN 977,026 thousand. As at September 30th 2021, the hedging reserve included PLN -58,080 thousand on account of the effective hedge. In the three months to September 30th 2021, Grupa Azoty S.A. reclassified PLN 2,193 thousand from other comprehensive income to the statement of profit or loss following settlement of a hedging relationship of instalment payments under a currency-denominated credit facility with sales denominated in the euro.

Grupa Azoty POLYOLEFINS applies cash flow hedge accounting with respect to currency risk and interest rate risk. In currency risk hedges, the hedged position are future highly probable cash flows related to costs in PLN, attributable to the Project, financed with drawdowns under the USD-denominated credit facility. In interest rate risk hedges, the hedged position are future highly probable cash flows arising from interest on the term loan denominated in EUR and USD.

As at September 30th 2021, the cash flow hedge reserve included PLN -16,161 thousand, PLN -255 thousand under settled foreign exchange hedging transactions for which the hedged item has not yet been realised, and PLN -15,019 thousand on account of measurement of interest rate risk hedging transactions.

Prices of CO_2 emission allowances

In the third quarter of 2021, the prices of EUAs on the exchange market continued on the upward trend that had begun in the fourth quarter of 2020. In mid-August, the price of emission allowances hit EUR 58 and in the first ten days of September exceeded EUR 60 to reach an all-time high of EUR 64.37 at the end of September 2021. The signs of the short-term growth trend coming to an end are the declining price movements and sharp downward price corrections occurring over one or two trading sessions.

According to current market forecasts, in the fourth quarter of 2021 and in the first quarter of 2022 the average prices of emissions allowances are expected to remain above EUR 60.

(all amounts in PLN '000 unless indicated otherwise)

In the third quarter of 2021, the Group companies continued purchases of allowances for the current year and for 2022-2023 based on the adopted Group-wide model for managing CO_2 emission allowances and an approved purchase plan. As at the end of the third quarter, the Group companies had their needs fully secured as regards EUAs held or contracted for 2021 and, partly, for 2022–2023.

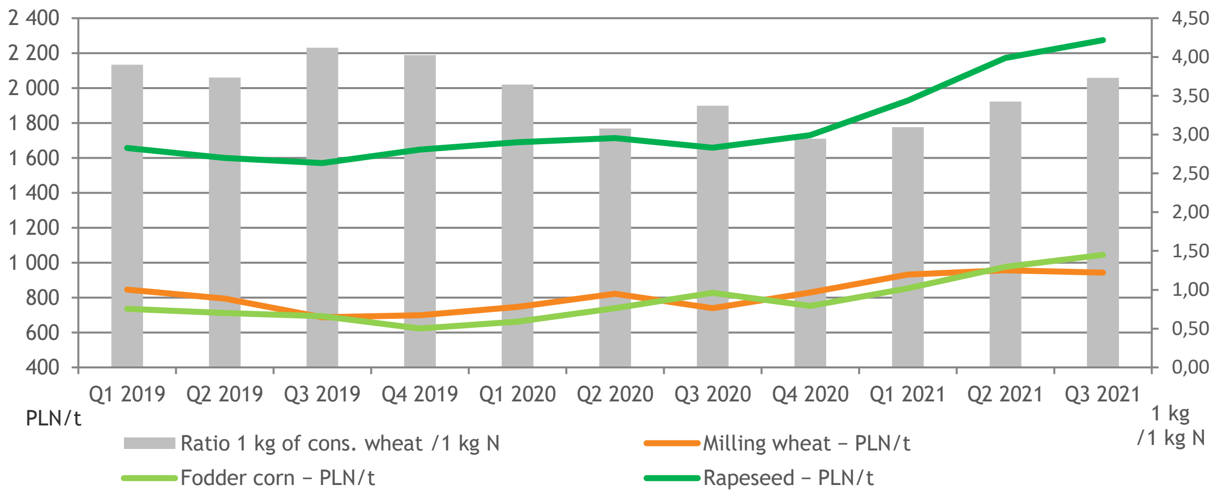
2.2. Market overview

AGRO FERTILIZERS

Economic conditions in agriculture

In the third quarter of 2021, the prices of key agricultural produce in Poland were much higher year on year. The average price of milling wheat in that period was PLN 943/tonne, up 27.6% year on year. The prices of maize and rapeseed were also high, at PLN 1,044 and PLN 2,274 per tonne (up 26.3% and 37.1% year on year), respectively. The current agricultural produce forecasts for 2021 predict that the prices will be generally higher than in 2020. The key factor will be the actual outcome of this year's harvest, both in Poland and in the European Union as a whole. According to Stratégie Grains forecasts for Poland for the 2021/2022 season, the yields may be slightly lower but will not differ materially from the average volumes harvested in previous years. The forecasts put yields of wheat at 11.1 million tonnes (down 7.7% year on year) and of barley at 2.9 million tonnes (down 24.5% year on year). Maize is an exception here, as its production is expected to grow by 24%, to 5.9 million tonnes. Such a significant revision of forecasts of barley and maize yields results from the corrections made by Statistics Poland in August 2021 concerning the areas planted with these crops. The situation in the EU is largely different, with a season-on-season increase of 2.7% in grain production projected for the 2021/2022 season, to 284.9 million tonnes (up 7.6 million tonnes).

Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

Average prices of wheat, maize and rapeseed

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	PLN/t	*PLN/t*	*%*	*PLN/t*	*PLN/t*	*PLN/t*
Milling wheat	739	943	27.6	1,000	901	1,000
Maize	827	1,044	26.3	1,095	809	1,095
Rapeseed	1,659	2,274	37.1	2,229	1,830	2,346

Source: In-house analysis based on external data.

The prospect of prices of agricultural produce remaining relatively high in the fourth quarter of 2021 and forecasts of relatively good grain yields in Poland, initially estimated by Statistics Poland at 34.5 million tonnes (down 3% year on year), give reasons to believe that the economic condition of the Polish agricultural sector will improve. Direct payments to farmers for 2021, whose amount at the end of September 2021 was set at a record level of PLN 15.6bn, are an additional supporting factor.

Advance direct payments, amounting to 70% of the direct payment amount, have been made since October 18th 2021.

Market of nitrogen fertilizers

In the third quarter of 2021, the prices of nitrate fertilizers were much higher than in the corresponding period of the previous year. The average price of ammonium nitrate in France reached EUR 398 per tonne, having increased year on year by as much as 70%. In Germany, the average price of calcium ammonium nitrate reached EUR 297/tonne CIF Inland, having risen in the first nine months of 2021 by 90% year on year, chiefly on the back of steadily growing prices of natural gas, which had an adverse effect on production costs. Higher gas prices made EU fertilizer producers either reduce their output or shut down production units, which further decreased the availability of fertilizer products on the market.

The third quarter of each year is a period of the steepest decline in demand for nitrogen fertilizers due to the harvest season. Demand from the agricultural sector increased slightly at the end of the reporting period due to the sowing of winter crops in late August and early September. Also in this case the main factor suppressing demand was the steady price increases and postponement of purchasing decisions by farmers in expectation of price declines. Fertilizers were thus bought only in volumes covering the current requirement. Significant price hikes on commodity markets later on during the year are expected to markedly affect the overall situation in the fertilizer segment, including limited product availability. However, given the agricultural sector’s relatively weak demand for fertilizers for application in spring, it can be assumed that an increase in demand will be potentially seen only later. High prices of fertilizer products expected to be seen in that later period will prompt farmers to cut costs, which may reduce consumption of fertilizers as basic means of agricultural production.

Based on experience to date, the COVID-19 pandemic is not expected to have a material effect on the overall situation in the nitrogen fertilizers sector throughout 2021.

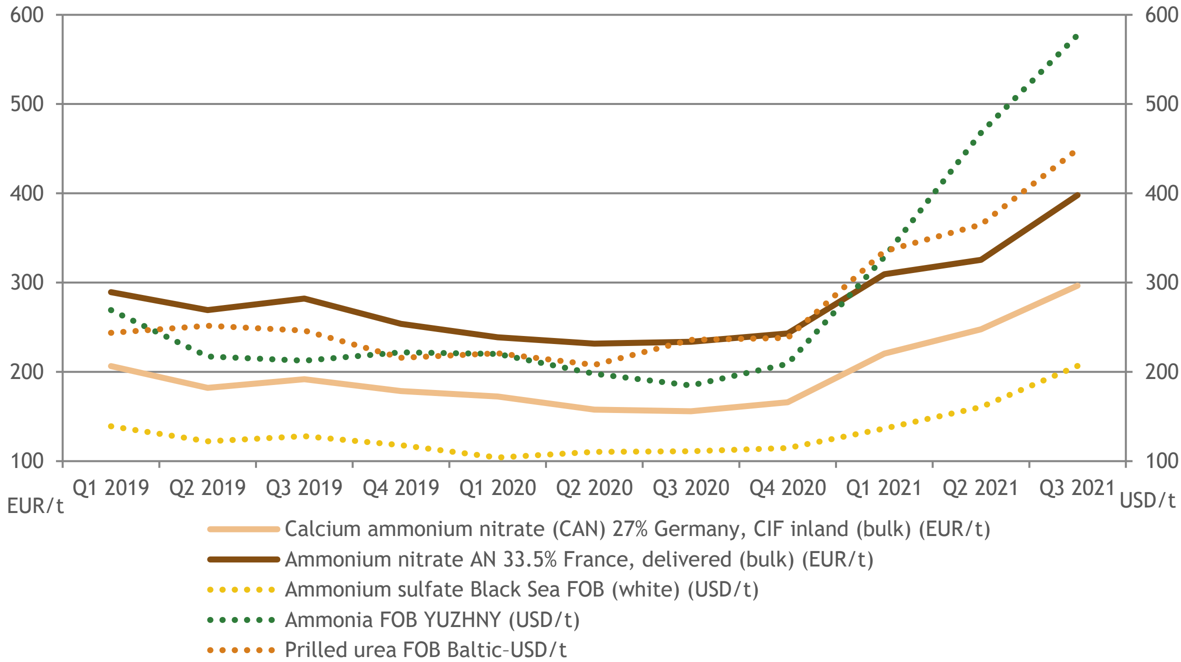
In the three months ended September 30th 2021, urea prices were much higher year on year. The average price of urea went up by 91%, to USD 449/tonne FOB Baltic. The continued demand from India at a time when China limited its export volumes was a trend driver in the urea market. High costs of natural gas, driving up production costs, and limited availability of urea kept pushing up its prices. The price growth was additionally compounded by high costs of freight and prices of ammonia. At the end of the third quarter of 2021, global urea prices were the highest in the last 13 years.

The first signs of concern were seen in the European urea market due to reduced output and its potential further constraints resulting from sharp increases in gas prices. Production cuts combined with high costs of freight and low stocks had an impact on the urea market in Europe. Given that the European market was increasingly dependent on imports due to the previously announced or anticipated production cuts (mainly affecting the nitrogen fertilizers and UAN markets), importers had difficulty purchasing those fertilizers.

In the third quarter of 2021, the FOB Yuzhny price of ammonia was relatively high, up 212% year on year. The growing prices of gas significantly increased ammonia production costs in Europe in the third quarter of 2021 and also boosted demand for ammonia from outside Europe. These market factors directly supported international ammonia prices.

In the coming months, gas prices will continue to drive developments in the European markets until demand for ammonia decreases. However, considering the extent of output reduction in Europe and the strong demand also from non-European regions, the situation will remain largely unchanged in the near term.

Prices of nitrogen fertilizers (urea, CAN, AN, AS,) and ammonia



Source: In-house analysis based on external data.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of nitrogen fertilizers

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
CAN 27% Germany CIF inland (bulk)	156	297	90.2	338	198	338
AN 33.5% France, delivered (bulk)	234	398	70.3	433	275	433
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Ammonia (FOB Yuzhny)	185	577	212.4	597	250	597
Urea (FOB Baltic)	236	449	90.5	474	298	474
AS (Black Sea FOB white)	111	207	85.9	224	113	224

Source: In-house analysis based on external data.

Current forecasts of agricultural produce prices for the fourth quarter of 2021 in Poland indicate that the prices may stay high. During this period, the prices will be largely driven by developments on global exchanges and reports on the availability of agricultural produce in international trade from the largest producers and importers. An additional factor supporting further price growth on the domestic market will be the supply of grain from Polish agricultural producers. The high prices of agricultural produce discouraged the domestic agricultural sector from releasing stocks during the harvest season. The situation did not improve on reports indicating possible price increases later on during the year.

The fourth quarter is the period when maize harvesting is continued, and this year’s yields are expected to be record high. In addition to the current strong profitability of the crop, the main reason for the increase in maize production were the corrections made by Statistics Poland in August 2021 concerning the areas planted with this crop. What also bodes well for the size of agricultural output in the future is the continuing good condition of winter crops. The key factor behind their growth to date were favourable weather conditions, i.e. temperatures and rainfall. Changes in weather conditions, especially during the winter, remain the biggest question mark.

In the fourth quarter of 2021, demand for nitrogen fertilizers for current applications, especially in the second half of that period, should decelerate. The main reason for the decline are the existing legal restrictions which permit nitrogen fertilizers to be applied on arable land in autumn until October 20th. This does not apply to demand from farmers intending to buy fertilizer for spring application, which will depend on the development of fertilizer prices.

The distribution of demand for fertilizers in the last quarter of the year will also be significantly affected by the availability of the products on the market.

The prospects of natural gas prices staying high during the fourth quarter of 2021 are a reason to believe nitrogen fertilizer prices will remain at historical highs. Further developments on the gas market will be a decisive factor.

In the fourth quarter of 2021, the Polish Agency for Restructuring and Modernisation of Agriculture (ARiMR) started disbursing direct payments. Given the high EUR/PLN exchange rate, the total value of direct payments was set at PLN 15.6bn. Advance direct payments (70% of the direct payment amount) commenced on October 18th 2021. The advances will be disbursed until November 30th 2021, injecting approximately PLN 10–11bn into the agricultural sector, which should boost its financial condition.

Market of compound fertilizers

In the three months ended September 30th 2021, the average price of 3x16 compound fertilizers (FOB Baltic) grew approximately 95% year on year.

At the beginning of the quarter, the upward market met with a growing resistance of buyers, leading to stabilisation of prices. At the same time, the trends on feedstock markets were watched very closely.

In July, a periodic decline in demand for NPK fertilizers among potential European buyers was observed, due to the ongoing harvesting and holiday season. August saw a rebounding trading activity and concerns about insufficient availability of products in the region. The revived interest in fertilizer purchases for the 2022 spring season continued until the second half of September, when it was halted by a sharp spike in natural gas prices. At that point, producers in general withdrew their products from the market, estimating the aftermath of the situation (including product price spikes and production cuts).

On a global scale, India strongly influenced the market landscape in the third quarter of 2021 as a key importer showing considerable appetite for fertilizer products and high market activity and seeking to rebuild stocks in view of the ever-growing pressure with the winter crops season drawing near. Africa, where more and more tenders were announced over time, also needed considerable volumes of fertilizer products. However, special attention should be given to the September announcement that China was to reduce fertilizer exports, including NPK products. It did not trigger a wave of panic buying in Asia, but importers still fear to witness shrinking market supply and higher prices in the mid-term perspective. Turkey followed suit by limiting its exports of NPK 20-20-0 and 15-15-15 fertilizers by requiring an appropriate approval.

Demand from Europe and South-East Asia is expected to continue in the fourth quarter, which, coupled with the expected increase in feedstock prices, will lead to a further rise in the prices of NPK fertilizers.

In the three months ended September 30th 2021, the average price of DAP (FOB Baltic) grew 107% year on year.

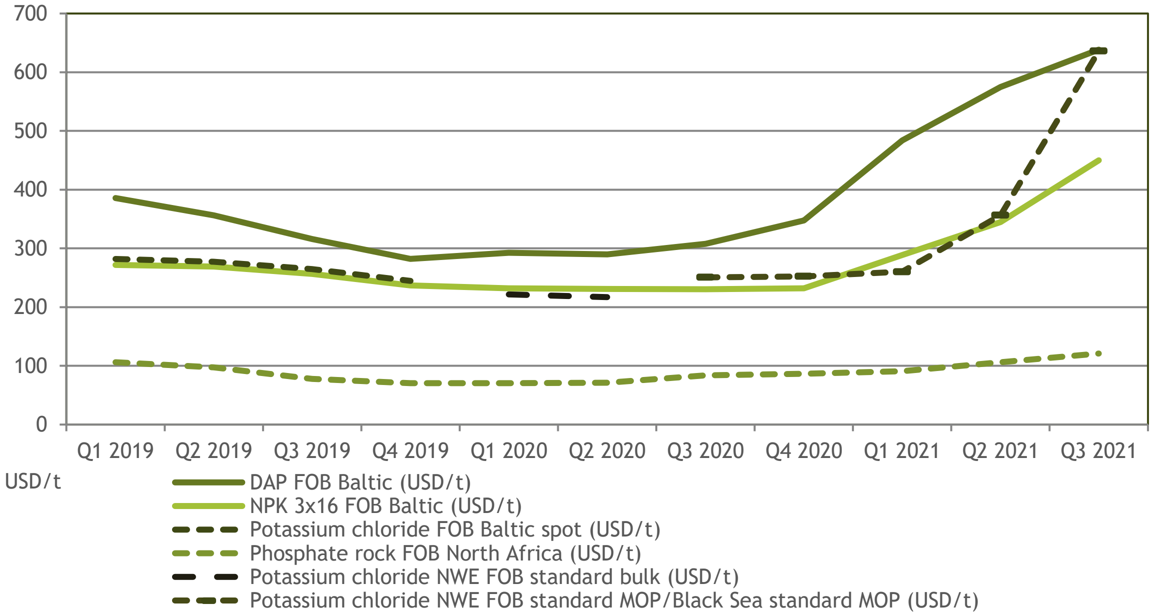
At the beginning of the quarter, the tightening supply was the main driver of global market conditions. Producers would rather turn to MAP in order to take advantage of the record-high prices on the markets located west of Suez (in particular in Latin America), thereby intensifying competition with limited quantities of DAP available on the market.

The spotlight was on Asia, particularly India and Pakistan. In the first of these countries, market players waited in vain for an increase in the maximum retail price or in subsidies (domestic sales priced well below prevailing international prices were unprofitable for importers), while the New Delhi government called for higher purchases from abroad as well as higher domestic production. On the other hand, authorities in China published a directive putting an obligation on fertilizer manufacturers to sell their products first in the domestic market, and then decided to impose restrictions on exports of certain products, including phosphate fertilizers. Turkey followed in China’s footsteps, limiting DAP exports by requiring an appropriate approval.

The US market also remained in a centre of attention, with domestic production suffering from damage caused by hurricane Ida, which led to additional shipments sent to the United States.

The European market saw a limited DAP trading activity in the reporting period. In September, a sharp spike in gas prices was the key issue discussed in the Old Continent, triggering the announcement of downtimes and production cuts at many fertilizer manufacturing plants.

Prices of compound fertilizers (DAP, NPK), potassium chloride and phosphate rock



Source: In-house analysis based on external data.

Due to the developments in the third quarter of 2021, the phosphate fertilizers market is currently very volatile. Given the prospect of exports from China being put on hold, production difficulties in the U.S. market, strong demand in India that still remains unsatisfied, and perturbations in Europe resulting from high natural gas prices, price increases across the markets are very probable. In the event of a seasonal decline in demand, prices are likely to stabilise at relatively high levels. In the current highly volatile market landscape, it is difficult to predict when the prices will begin to fall. A downward correction of DAP prices could be triggered, for instance, by a depreciation of feedstock prices, resumption of exports by China or significant erosion of demand.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of compound fertilizers and raw materials for their production

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
DAP (FOB Baltic)	308	638	107.4	625	416	655
NPK3x16 (FOB Baltic)	230	450	95.3	450	268	450
Potassium chloride (NWE FOB Standard MOP/Black Sea Standard MOP)*		636		679	256	679
Phosphate rock (FOB North Africa)**		121		133	87	133

** Rebased.*
*** Change of the source of quotations.*
Source: In-house analysis based on external data.

The beginning of the third quarter of 2021 saw further price increases across global markets for DAP and MAP phosphate fertilizers, with a slight stabilisation in August and a minor price correction in September. The third quarter of 2021 saw prices of phosphate fertilizers reach a peak since their upward trend began, i.e. since the second quarter of 2020. It was at that point, after the United States announced the imposition of countervailing duties on fertilizers imported from Russia and Morocco in 2021, that the markets went into an intensive upward demand trend, driving up DAP and MAP prices in the first quarter of 2021 to the levels not quoted since 2012. This was additionally supported by the high prices of soybean and maize. As a result of such significant increases in prices of phosphate fertilizers, the prices of raw materials used in their production, i.e. phosphoric acid and phosphate rock, also grew considerably. From the beginning of 2021, the price of phosphate rock (FOB North Africa) went up by approximately 52%, including by 16% in the third quarter alone. In the case of phosphoric acid, prices for India grew by approximately 68% from the beginning of the year, including by 16% in the third quarter. The increase in phosphate rock prices was not driven by the instability in supply and demand, but rather reflected an overall upward trend in the prices of all feedstocks used for fertilizer production. The main suppliers of phosphate rock did not report any disruptions in production.

In the near future, the market of feedstocks used in the production of phosphate fertilizers will expect India to revise the maximum retail price. The maximum price proposed in the first quarter of 2021 to subsidise DAP production did not assume such significant market price increases, which has led to losses on the part of both manufacturers and importers. As a result, despite its huge demand, India had to significantly reduce DAP imports. Another sign of the direction to be taken by the market will be the price of phosphoric acid for Indian customers, to be agreed for the fourth quarter of 2021. No price cuts are expected. Instead, the third quarter price is likely to be maintained or even slightly increased. The price of phosphoric acid is expected to fall at the beginning of the first quarter of 2022. The phosphate rock market is likely to follow suit. Prices are expected to stabilise by the end of the year and then fall slightly starting in the first quarter of 2022, but going back up to current levels in the second quarter of the year. In 2022, long-term contracts will become problematic, as the current market prices have been well above two-year average prices for quite a long time, and there is no way of knowing today whether the downward trend will last several months, or whether certain global drivers will occur leading to major corrections across feedstock markets in a short time.

Since the beginning of the year, the global potassium chloride market has been on a rise. Market participants assumed that the price increases in the first and second quarter of 2021 will mark the end of the upward trend. This, however, was not the case, not only due to the difficult situation in Belarus and the sanctions imposed on that country, but also because of the very large purchases made by Brazil, India or China. Prices of potassium chloride in Brazil broke new records practically every week. Since the beginning of 2021, the price benchmark for potassium chloride quotations in Brazil has increased by nearly 212%, including by approximately 34% in the third quarter alone. The US NOLA market also recorded a strong growth in the same period, going up by approximately 167% in the period January – September and by 33% in the third quarter alone. The highest increase in potassium chloride prices was seen in June, when the market was awaiting the imposition of ultimate sanctions on Belarus. In addition, the supply side (mainly in the US) was undermined by the reports on faster shutdown of the production shafts in one of potassium chloride mines in Canada.

Analysts expect that the potassium chloride market will continue to follow the upward trend, but much will depend on the developments in the relations with Belarus and on whether the European Union or the US will tighten the sanctions imposed on that country. A significant disruption of the Belarusian potassium chloride industry may lead to further price increases due to undersupply. The developments in the coming periods will depend on how the main customers of potassium chloride, i.e. Brazil, China and India, will react to the situation in Belarus. If strong buying pressures continue, no significant price cuts can be expected.

PLASTICS

Polyamide 6 chain

The third quarter of 2021, just as the previous months, was marked by generally strong demand from polyamide 6 application markets and high prices along the entire product chain. The shrinking supply across most petrochemical and polymer markets, coupled with constantly high transport costs and global logistics problems, resulted in high product prices along the entire product chain.

Prices of key feedstocks (benzene and phenol) were volatile throughout the third quarter of 2021 with periodic upward and downward movements.

In the case of benzene, the availability of that feedstock in Europe offset demand from derivatives sectors. Feedstock prices were driven mainly by crude oil quotations and prices across global markets. The supply and demand situation in the European phenol market was characterised by the low availability of the product amid generally solid demand for phenol from the downstream sectors. Low stock levels from previous periods, scheduled and unscheduled shutdowns of several European phenol and cumene production units, and production disruptions in the US market translated into supply constraints in Europe.

Year on year, the average prices of benzene and phenol in Europe in the third quarter of 2021 were higher by 131% and 50%, respectively.

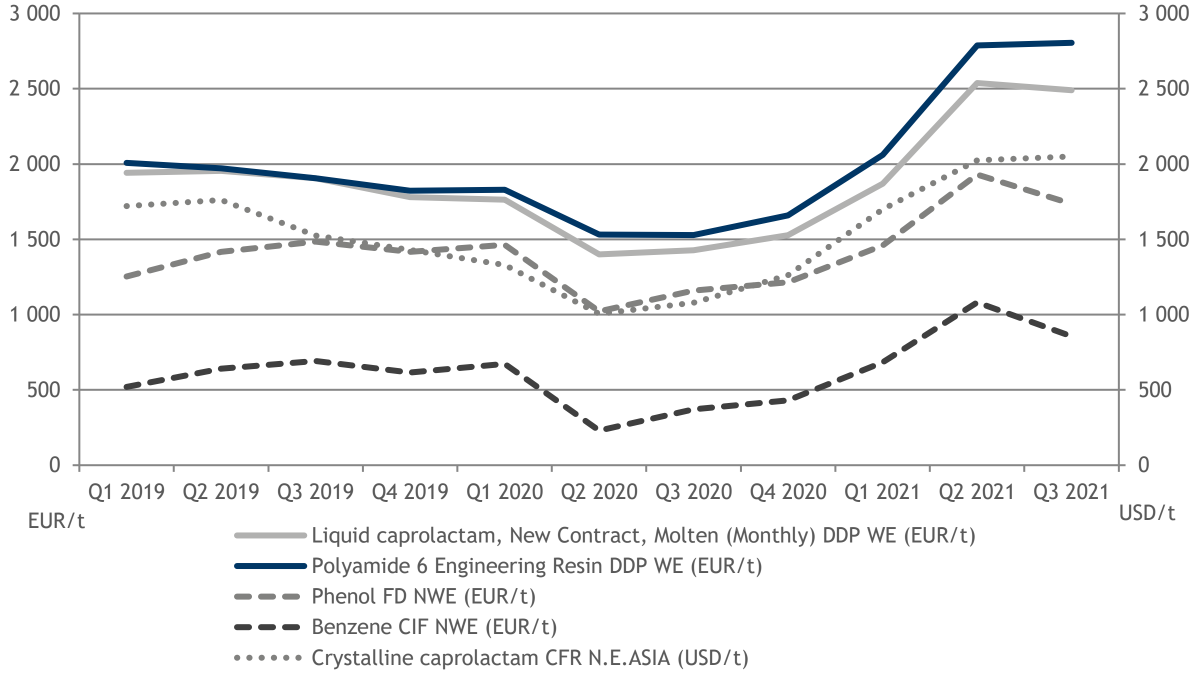
The key drivers of the European polyamide 6 market were: continued demand and supply imbalance, logistics problems in the supply chain, unstable benzene and phenol prices, and rising prices of other raw materials and energy.

During the reporting quarter, prices of caprolactam (CPL) and polyamide 6 in Europe followed the price trend of the key feedstocks (benzene and phenol). Prices were driven mainly by the strong demand from most application sectors amid low supply, as well as pressures created by quickly rising costs of other feedstocks, including ammonia and energy.

Average quarterly contract prices of European caprolactam grew by 74.5% year on year. Quarterly average prices of caprolactam in Asia were up 90% year on year.

Compared with the third quarter of 2020, the average contract price of polyamide 6 in Europe was up 83.5%.

Prices of PA6, caprolactam, benzene and phenol



Source: In-house analysis based on external data.

In the third quarter of 2021, the European caprolactam market saw supply constraints caused by production disruptions and maintenance shutdowns. Two CPL producers continued to declare force majeure during the third quarter. In August and September, several manufacturers launched maintenance work in their plants.

The polyamide 6 market in Europe was seen as more balanced than in the previous quarter. The supply of polyamide 6 was low, particularly with respect to reinforced grades with additives such as glass fibre or fire retardants, where a shortage is still observed. The downturn in the automotive business restored some balance in the polyamide 6 market after many months of tensions. However, the situation varies by regions and product grades. One European producer continued to declare force majeure until August, and another one began maintenance work in September.

In the third quarter of 2021, the automotive sector showed sings of falling demand. The shortage of computer components had a particularly strong impact on the automotive industry, leading to many car manufacturers reporting production decrease. Assessments on the actual impact vary depending on the region, the manufacturer of automotive parts, and the group of car manufacturers. The sentiment in the automotive sector is mixed. Some market players expect that the shortage of semiconductor chips will continue to affect the market until the beginning of 2022, and there is no certainty as to the demand level for the remainder of 2021.

Demand from other markets for polyamide 6 remained solid, but still below pre-pandemic levels. Demand from end consumers is high, but the shortage of many feedstocks and materials makes industries unable to keep up with the actual consumer demand. The third quarter is traditionally a seasonal slowdown period, when the demand is generally lower (particularly in August), especially in the southern part of Europe. Many industries shut their production down temporarily for the holiday period, for instance to carry out maintenance work.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of polyamide 6, caprolactam and raw materials used in their production

	Average Q3 2020	Average Q3 2021	Change y/y	Sep 2021	MIN 2021	MAX 2021
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
Benzene (CIF, NWE)	370	856	131.4	836	602	1,364
Phenol (FD, NWE)	1,159	1,735	49.7	1,715	1,376	2,213
Caprolactam (Liq., DDP, WE)	1,427	2,490	74.5	2,500	1,765	2,765
Polyamide 6 (PA 6) (DDP, WE)	1,528	2,805	83.5	2,825	1,945	2,975
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Caprolactam (CFR, NE Asia)	1,078	2,050	90.1	2,040	1,585	2,055
	USD/bbl	*USD/bbl*	*%*	*USD/bbl*	*USD/bbl*	*USD/bbl*
Crude oil (BRENT)	43.37	72.98	68.3	74.44	55.10	74.44

Source: In-house analysis based on external data.

The prospects for the demand levels in Europe for the fourth quarter of 2021 remain mixed. Overall, demand from polyamide 6 application sectors is expected to be solid, but the decline in demand from the automotive sector which began in the third quarter is likely to continue. There are some concerns about the potential impact of the prolonged shortages of computer chips on other sectors.

In Europe, the supply of CPL and PA6 is expected to recover once maintenance work is completed.

The end of the fourth quarter usually sees a seasonal slowdown in demand due to the holiday season and inventory sell-out at year-end. Combined with the end of maintenance shutdowns, this should increase the availability of products on the market. The situation remains unclear for certain reinforced grades which contain additives such as glass fibre or fire retardants.

Market sentiment remains cautious, with both manufacturers and customers concerned about the upward pricing pressure due to high and unstable natural gas prices and rising energy costs, which may translate into continued high CPL and PA6 prices in the region. Aside from the growing production costs, many European downstream producers are faced with shortages of materials.

The container transport market does not show any signs of decline due to high prices and long waiting times, which adversely affects the ability to purchase chemicals, raw materials and other components used in production. In particular, shipments from Asia to Europe come with large delays and unprecedented increases of freight costs.

The ongoing COVID-19 pandemic, feedstock shortages, huge increases in energy costs and problems with logistics have created difficult and uncertain market conditions, which are likely to persist until the end of 2021.

CHEMICALS

OXO product chain

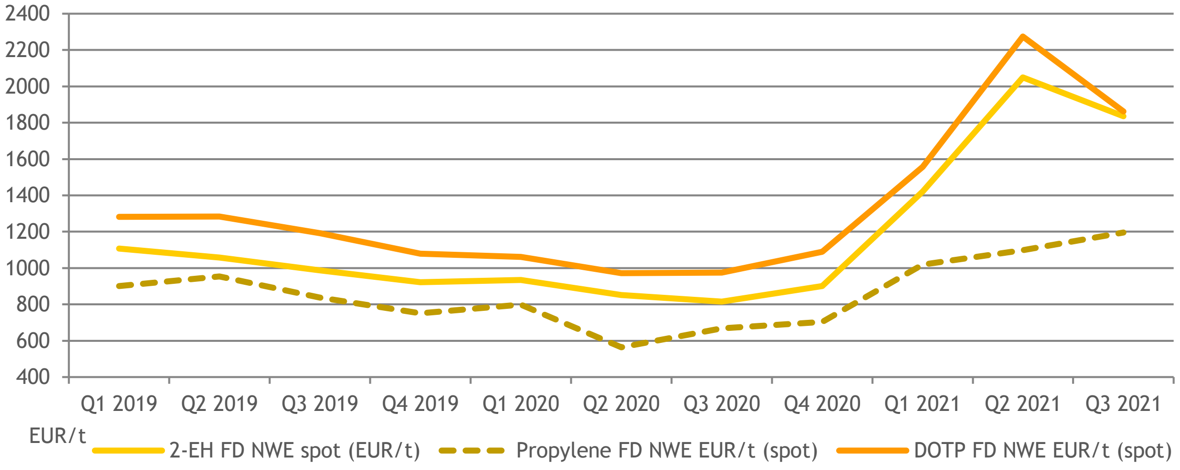
In the three months ended September 30th 2021, the prices of 2-EH went up 125% year on year. This price spike was mainly an effect of the very limited supply on the European market and continued high demand.

The supply of OXO alcohols shrank in the third quarter of 2021, and the demand for this product started to fall in the second half of July due to traditional seasonal (holiday) maintenance shutdowns. Demand for alcohols started to recover at the beginning of September. At the end of the third quarter, supply was reduced again, which exacerbated problems with the shortage of OXO alcohols in the European market. Throughout the third quarter of 2021, the demand for alcohols exported outside Europe remained very high, mainly to North and South America, but also to China and Russia. Imports into the European market were very limited owing to continuing logistics problems caused by high freight prices and shortages of transport containers.

In the three months ended September 30th 2021, the prices of DOTP went up 91% year on year.

Thanks to the continued high imports from other regions of the world, mainly from Turkey and Asia, the availability of plasticizers at the beginning of the third quarter od 2021 was not limited to any significant extent. Demand for plasticizers fell at the beginning of the period, especially in the PVC market where very many producers declared force majeure. In addition, many plasticizers processors started the traditional summer maintenance shutdown period (in the sectors other than PVC processing), which led to a further decline in demand. From the beginning of September, demand for plasticizers was steadily rebounding, mainly in the engineering plastics market. Unfortunately, the PVC market still had to deal with production issues adversely affecting the demand for plasticizers (mainly DOTP). Over the quarter, imports from Asia became increasingly less profitable due to growing freight costs and persisting logistics problems. In September, imports of plasticizers from Turkey also went down.

Prices of 2-EH, DOTP and propylene



Source: In-house analysis based on external data.

In the third quarter of 2021, the spot prices of propylene went up 79% year on year, while its contract prices rose by 59%.

Since the beginning of the year, the supply and demand situation on the propylene market was considered bad. The demand was high, which during emergency and maintenance shutdowns resulted in significant shortages of propylene on the market at the beginning of the third quarter. Demand for propylene remained particularly high in the segment of polypropylene and propylene oxide production. Since mid-August, the availability of propylene began to rise steadily as crackers were brought back on stream. In the second half of September, demand for propylene dropped, mainly due to production problems at several propylene derivatives units, which additionally increased the availability of that feedstock in Europe. Eastern European countries faced less serious problems with propylene availability as they had the possibility to purchase the product from countries farther to the east at relatively attractive prices.

In the fourth quarter of 2021, propylene quotations are likely to continue to rise, mainly due to persistently high prices of crude oil and kerosene. Much will also depend on the availability of propylene in the market. If propylene processing units capacities production, potential maintenance and emergency shutdowns of propylene production units may significantly limit the availability of this product, potentially resulting in another large increase in its prices (mainly on the spot market).

(all amounts in PLN '000 unless indicated otherwise)

Average prices of 2-EH, DOTP and propylene

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
2-EH (FD NWE spot)	815	1,835	125.1	1,810	1,078	2,088
DOTP (FD NWE spot)	976	1,862	90.8	1,862	1,256	2,460
Propylene (FD NWE spot)	668	1,196	78.9	1,159	940	1,233

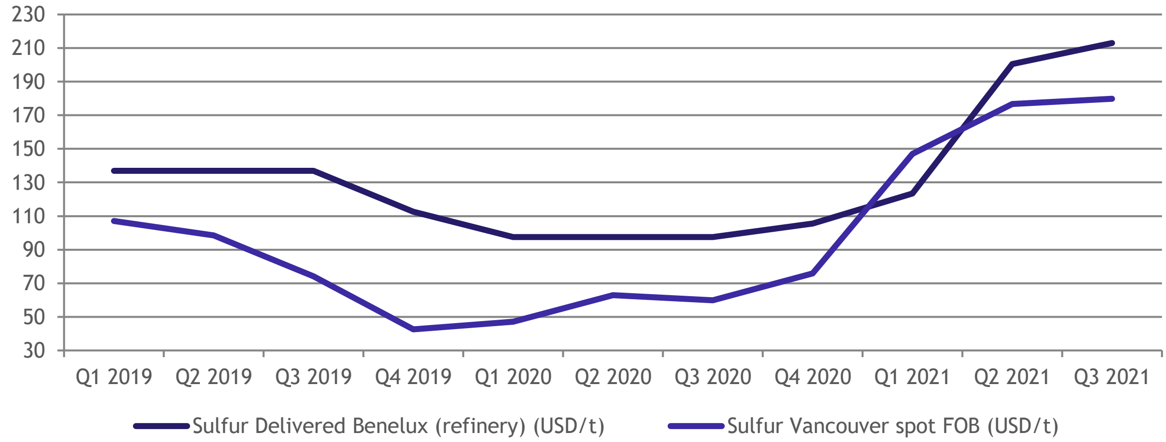
Source: In-house analysis based on external data.

In the coming months, high demand for OXO products is expected to continue on the back of the economic recovery after the COVID-19 pandemic. Strong demand for OXO products in their exports to non-European markets is possible to continue.

Sulfur

After the strong price increases in January and February 2021, the prilled sulfur market was relatively stable in the following months until the end of the third quarter of the year. Initially, the price increases were driven by favourable market for phosphate fertilizers and high demand for sulfur for the production of sulfuric acid, used mainly in the fertilizer industry. The increase in prices is also attributable to the limited activity of the petrochemical industry (due to the pandemic, overhauls and shutdowns). In the third quarter of 2021, the prices of prilled sulfur (Vancouver SPOT FOB) surged by approximately 200% year on year. The European liquid sulfur market was also under strong price pressure, resulting from very tight supply from refineries. As a result of the problems with liquid sulfur in Western Europe, sulfuric acid producers were sometimes forced to cut or even temporarily discontinue production. The average price of liquid sulfur on the Benelux Delivered basis moved up by approximately 118% year on year in the third quarter of 2021.

Sulfur prices



Source: In-house analysis based on external data.

The short-term outlook for the prilled sulfur market is largely dependent on the situation in the fertilizer sector. The current high cost of ammonia production is forcing certain manufacturers of phosphate fertilizers to curtail their operations, which may reduce demand for sulfur and drive down its prices. On the other hand, the pressure on DAP prices, due to the shortage of ammonia, may also drive up the prices of prilled sulfur.

Forecasts predict potential declines in the prices of both prilled and liquid sulfur as of the beginning of the first quarter of 2022. Much will depend on the spread of the COVID-19 pandemic and related restrictions, such as lower mobility and reduced fuel and sulfur production, which will drive up sulfur prices.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of sulfur

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Liquid sulfur (Delivered Benelux refinery)	98	213	117.9	213	124	213
Prilled sulfur (Vancouver spot FOB)	60	180	200.7	186	112	186

Source: In-house analysis based on external data.

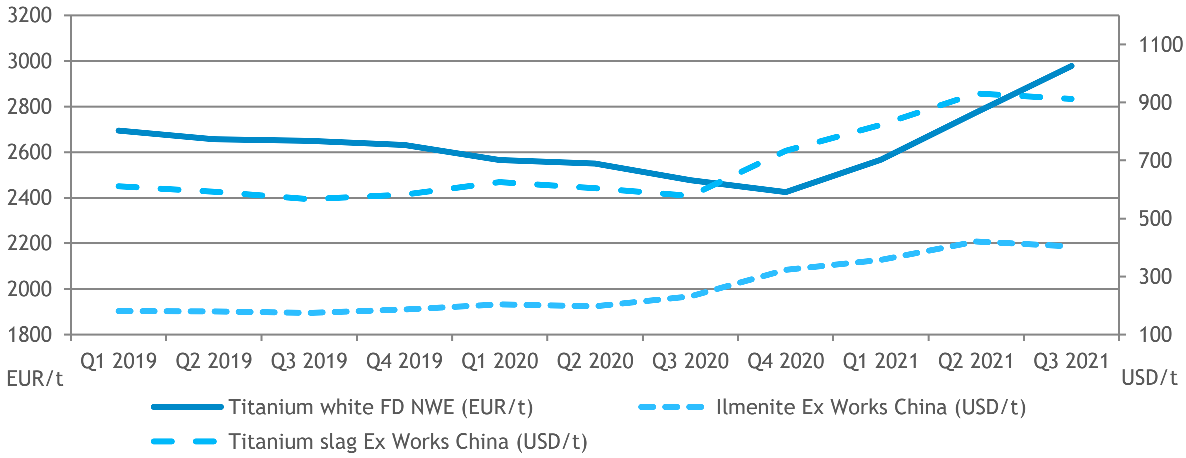
Pigment chain

In the three months ended September 30th 2021, the average price of titanium white (TiO_2) manufactured in Europe increased by approximately 20% year on year. The upward trend which started in the last quarter of 2020 continues, and the TiO_2 market in Europe remains pent-up. The current situation is mainly driven by the continuing strong demand exceeding market supply in the reporting period. The problem is further aggravated by the cost pressures on the feedstocks side and the lack of competitive Chinese supplies.

In the third quarter of 2021, international freight costs continued to grow, and the resulting disruptions in sea transport are unlikely to be eliminated by the end of the year.

The global automotive industry is currently facing a supply-demand imbalance, but also shortages of semiconductors and automotive parts as well as supply chain issues. To date, the challenges faced by the automotive sector have not had a direct impact on the overall demand for TiO_2. The construction and furniture industries are viewed as faring particularly well, generating healthy demand on the market.

Prices of titanium white, ilmenite and titanium slag



Source: In-house analysis based on external data.

Although titanium white demand forecasts for the fourth quarter of 2021 are mixed, demand is expected to strengthen in many sectors, with the main drivers of price increases including the pent-up and dynamic market, delays in international transport, high freight rates, low availability of commodities, and non-competitive imports from Asia.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of titanium white and raw materials for its production

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
Titanium white (FD, NWE)	2,477	2,978	20.2	2,990	2,473	2,990
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Ilmenite (ex Works China)	232	403	73.9	424	338	427
Titanium slag (ex Works China)	578	912	57.9	930	804	965

Source: In-house analysis based on external data.

Ilmenite prices have continued at high levels since the beginning of 2021 and are expected to grow further. In view of the dynamic recovery of the Chinese economy after the pandemic crisis, a sharp growth in the prices of titanium-bearing raw materials on that market started already in the second half of 2020. Price spikes continued in 2021: the price of ilmenite in China in the three months ended September 30th 2021 was 74% higher than in the corresponding period of 2020, with the titanium slag price rising 58% year on year in the same period. The price hikes made Chinese producers of titanium white increase imports, which triggered a price growth globally, albeit less sharp.

The fourth quarter of 2021 is expected to see further increases in ilmenite prices across the globe, driven by the persistently high demand for titanium white and declining availability of the raw material. The prices of titanium slag are also expected to grow following an increase in ilmenite prices.

Melamine

In the three months ended September 30th 2021, melamine prices rose approximately 72% year on year. The global melamine market saw growing production costs, mainly due to spikes in gas prices, and transport costs, with strong demand for melamine combined with limited supply. The upward trend that commenced in the last quarter of 2020 continued in the reporting period. High consumer demand in wood-based products and automotive industries exceeded the constrained supply, which was the main driver behind price increases. The construction sector is still showing strong interest in melamine, with consumers building their stocks in fear of problems with product availability and stability of supply chains. Rising freight rates affected all commodity markets, especially in Asia, and frequent delays in overseas deliveries made purchases from outside Europe unprofitable for European customers.

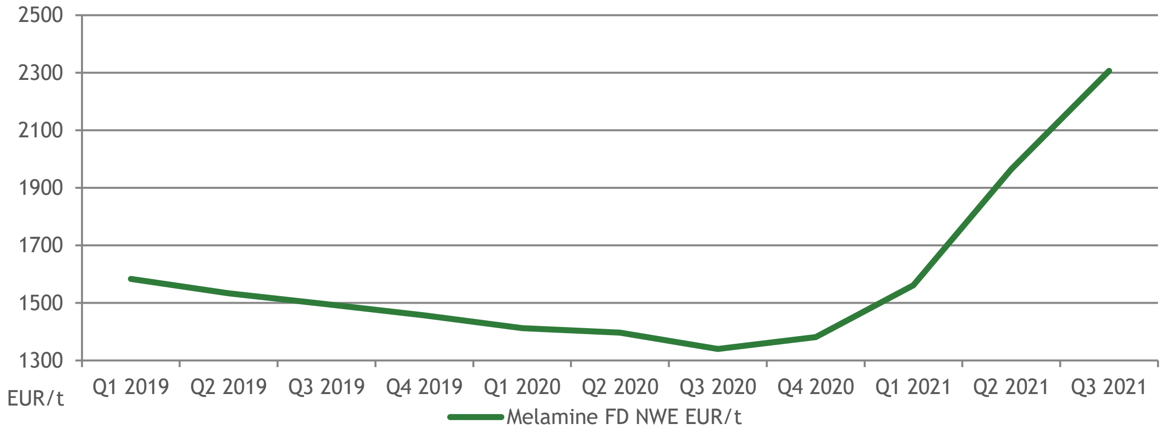
Prices of natural gas used as a feedstock for urea production were a major price driver. Due to high sea freight prices, Asian products were missing from the market, which further aggravated supply constraints.

The US melamine market also experienced demand-supply imbalances, additionally exacerbated by production problems of the country’s only producer of melamine, caused by the Ida hurricane in August. This contributed to the increased demand for imported melamine. Due to these specific market circumstances, record-high prices paid by customers became a secondary issue, with priority given to the security of supply.

As expected by most market participants analysing the demand and supply side, contract prices for the fourth quarter of 2021 surged significantly due to the growing demand-supply imbalance in the melamine market. Unavailability of the product also drives up spot prices, and if the supply of melamine remains low, a similar scenario can be expected later on during the year, especially given that the current quarter is the second best quarter of the year in terms of the highest seasonal demand for melamine.

(all amounts in PLN '000 unless indicated otherwise)

Prices of melamine



Source: In-house analysis based on external data.

Average prices of melamine

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
Melamine (FD, NWE)	1,340	2,307	72.1	2,365	1,495	2,365

Source: In-house analysis based on external data.

ENERGY

Natural gas

Gaspool spot prices of natural gas at the start of 2021 and at the end of the first quarter were below EUR 20/MWh. Then they started a slow and steady march upwards, rising to EUR 35/MWh at the end of the first half of 2021, with the rise attributable to several reasons. The increase was due to growing demand fuelled by low temperatures and low wind levels, as well as to rapidly growing prices of coal and carbon emission allowances, which made the use of gas for electricity production more economical. As a result, already in May gas was drawn from instead of being injected in storage facilities, with the volumes in storage hitting all time lows. On the supply side, low LNG supplies to Europe were seen. Given the forecast of a hot summer in Asia, the continent remained a more profitable market for liquefied gas suppliers. In addition, mid-April saw the start of overhauls on the Norwegian gas infrastructure, which continued with varying intensity until the end of June. Russia did not increase LNG supplies to Europe either, despite the additional transmission capacities offered at the border with Ukraine. At the end of the first half of 2021, natural gas spot prices reached a level previously seen in winter 13 years before.

In July, a hot summer in North Asia and a drought in South America drove up demand for liquefied gas and pushed up prices in those regions, which exacerbated the decline in LNG supplies to Europe. Other factors included supply constraints resulting from an equipment failure at Norway's largest gas field, Troll, and the results of a capacity auction for the Ukrainian transit gas pipeline in August, with Gazprom failing to book any extra capacity despite high gas market prices. All these factors combined sent gas prices up sharply at the end of July. In the first half of September, gas supply decreased again due to maintenance work performed on Gassco's Norwegian infrastructure and on the Nord Stream pipeline. Gazprom reduced supplies to Europe via Ukraine and Belarus, and hurricanes in the Gulf of Mexico caused disruptions in LNG shipments from the US. At the end of September, gas prices increased rapidly again, breaking new records and ending the third quarter at EUR 85/MWh.

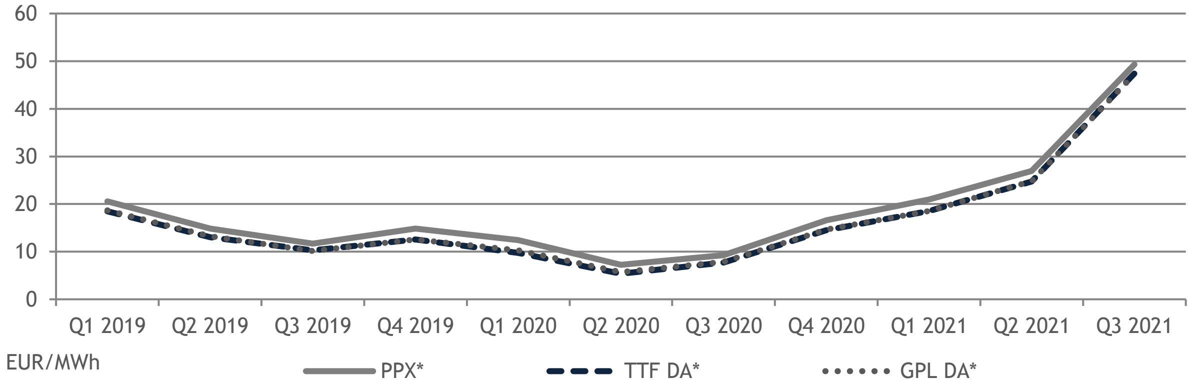
The European gas market lost its flexibility owing to the challenging market situation caused by growing demand for gas in economies recovering from the pandemic, implementation of a more ambitious climate policy and global market developments. The market did not respond to the price increase with either higher supply or lower demand. The situation was further aggravated by speculative capital activities and Gazprom's intentional reduction of its supplies to Europe, designed to have the disputed Nord Stream 2 gas pipeline launched before the winter season. At the end of the third quarter, gas storage facilities in the EU were only 75.3% full (829 TWh).

(all amounts in PLN '000 unless indicated otherwise)

The storage deficit was 14.3% (150 TWh) relative to the five-year average and decreased only 7 TWh during the third quarter. The market saw first reports on industrial production cuts in Europe due to high gas prices.

Gas markets in the northern hemisphere are expecting a few months of instability in winter, with weather conditions likely to have a major impact on supply and demand balance and price levels.

Prices of natural gas



* *Excluding transmission.*
Source: In-house analysis based on external data.

Average prices of natural gas

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	EUR/MWh	*EUR/MWh*	*%*	*EUR/MWh*	*EUR/MWh*	*EUR/MWh*
TTF DA (excluding transmission)	7.7	47.4	514.5	62.4	17.5	62.4
GPL DA (excluding transmission)	7.9	47.3	500.1	62.3	17.8	62.3
Polish Power Exchange (excluding transmission)	9.3	49.3	430.7	64.5	20.2	64.5

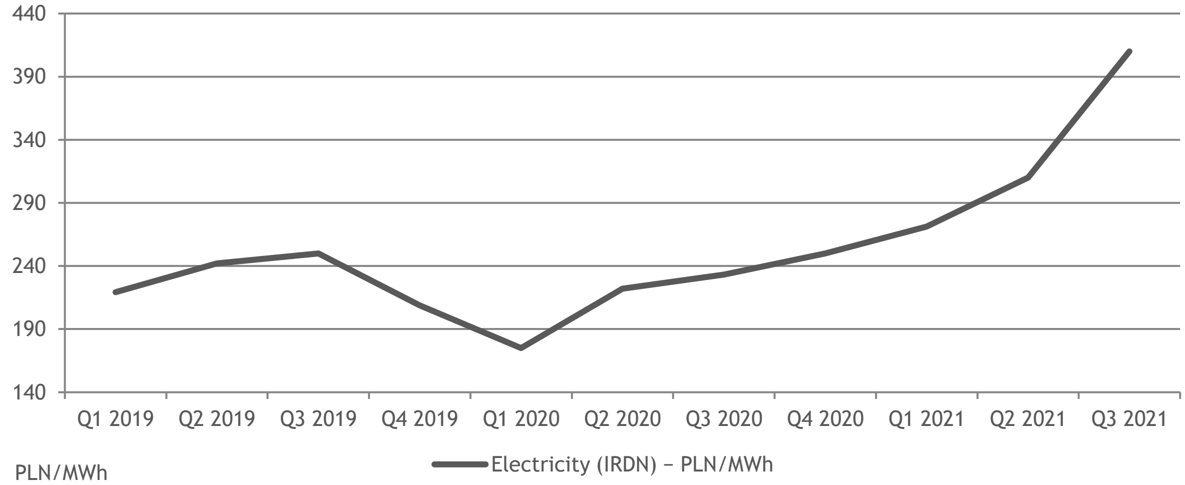
Source: In-house analysis based on external data.

Electricity

Electricity prices further increased in the third quarter of 2021, with average prices rising by a record 32% quarter on quarter. Year on year, electricity prices rose as much as 76%. The uptrend in electricity prices was mainly driven by higher prices of CO_2 emission allowances, increased demand for electricity in economies recovering from the pandemic, low-wind months, and rising prices of key fuels: gas and coal. The uptrend was recorded across all European countries.

(all amounts in PLN '000 unless indicated otherwise)

Prices of electricity



IRDN – average price weighted by the volume of all transactions on a trading day, calculated after the delivery date for the entire day.
Source: In-house analysis based on external data.

Average prices of electricity

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	PLN/MWh	*PLN/MWh*	*%*	*PLN/MWh*	*PLN/MWh*	*PLN/MWh*
Electricity	233.09	410.32	76%	465.70	133.94	541.57

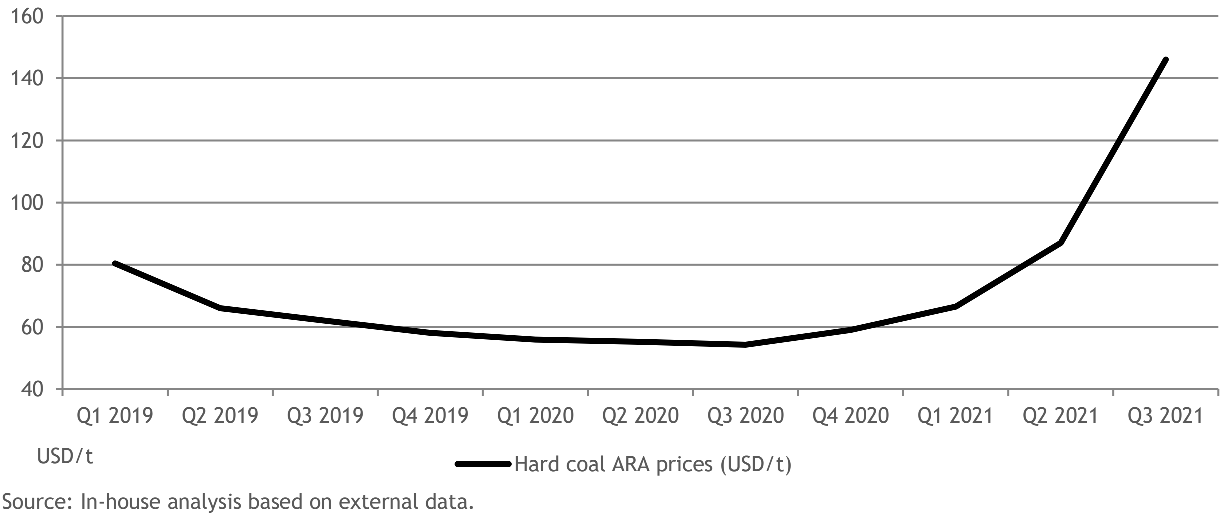
Source: In-house analysis based on external data.

Coal

In the third quarter of 2021, coal prices continued in an uptrend. Compared with the previous quarter, average coal prices rose 67% and reached an all-time high of USD 218.65/tonne at the end of September 2021 (up 316% year on year). This trend continued in October.

The main reasons behind the rising coal prices include growing demand in Asia (China, India, Indonesia) and Europe and post-pandemic economic recovery. In addition, the coal market is supported by global restrictions and numerous mine closures induced by the pandemic, the ongoing rebuilding of stocks by China and a shift in supply sources (increased supplies from Russia) caused by the conflict between Australia and China.

Prices of hard coal



Source: In-house analysis based on external data.

(all amounts in PLN '000 unless indicated otherwise)

In the short term, coal prices will be driven by:

- European policy aimed at reducing coal consumption in favour of renewable energy sources;
- growing coal demand in Europe driven by growing gas prices;
- increased electricity demand inducing a shift in the source structure, largely towards fossil fuels;
- weather conditions during the upcoming winter season.

Average prices of hard coal

	Average Q3 2020	Average Q3 2021	Y/y change	Sep 2021	MIN 2021	MAX 2021
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Coal	54.29	145.94	268%	175.06	62.20	218.65

Source: In-house analysis based on external data.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Item	Q3 2021	Q3 2020	change	% change
Revenue	3,882,100	2,416,045	1,466,055	60.7
Cost of sales	(3,354,106)	(1,978,884)	(1,375,222)	69.5
Gross profit	**527,994**	**437,161**	**90,833**	**20.8**
Selling expenses	(270,669)	(202,943)	(67,726)	33.4
Administrative expenses	(193,721)	(178,675)	(15,046)	8.4
Profit on sales	**63,604**	**55,543**	**8,061**	**14.5**
Net other income	43,290	6,056	37,234	614.8
Operating profit	**106,894**	**61,599**	**45,295**	**73.5**
Net finance costs	(75,436)	(11,005)	(64,431)	585.5
Share of profit of equity-accounted investees	4,169	4,218	(49)	(1.2)
Profit before tax	**35,627**	**54,812**	**(19,185)**	**(35.0)**
Income tax	(21,653)	(13,832)	(7,821)	56.5
Net profit	**13,974**	**40,980**	**(27,006)**	**(65.9)**
EBIT	**106,894**	**61,599**	**45,295**	**73.5**
Depreciation and amortisation	193,306	188,508	4,798	2.5
EBITDA	**300,200**	**250,107**	**50,093**	**20.0**

Source: Company data.

(all amounts in PLN '000 unless indicated otherwise)

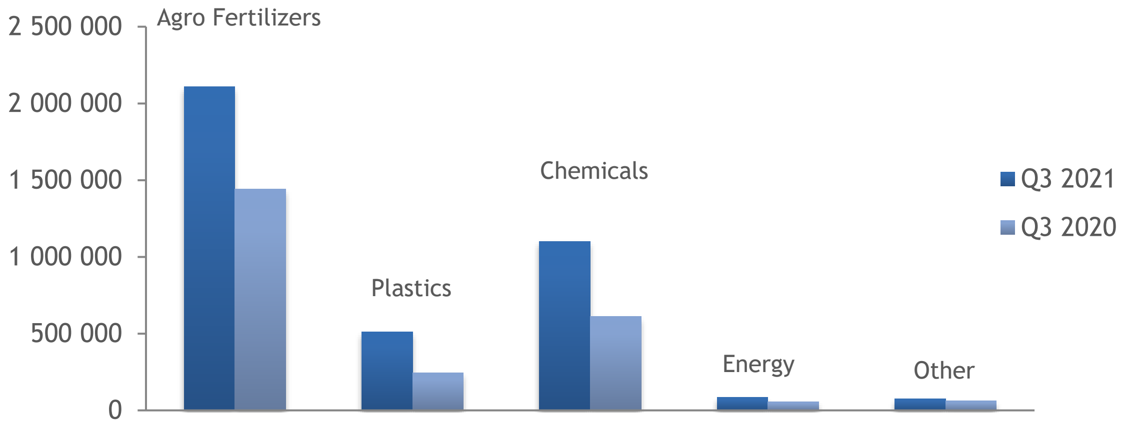
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics*	Chemicals	Energy	Other Activities
External revenue	2,109,835	510,621	1,101,689	83,705	76,250
Profit/(loss) on sales	(78,587)	12,243	107,533	11,747	10,668
EBIT	(81,186)	56,666	108,435	11,082	11,897

Source: Company data.

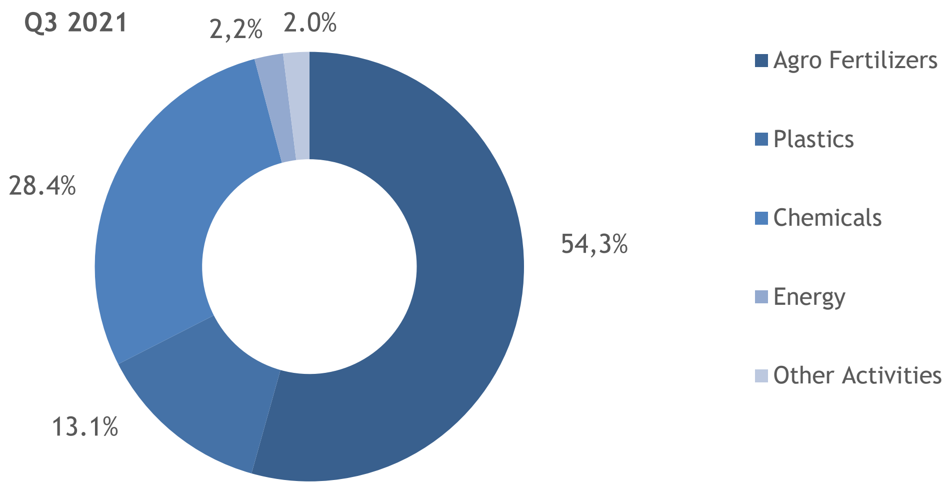
Revenue by segment*

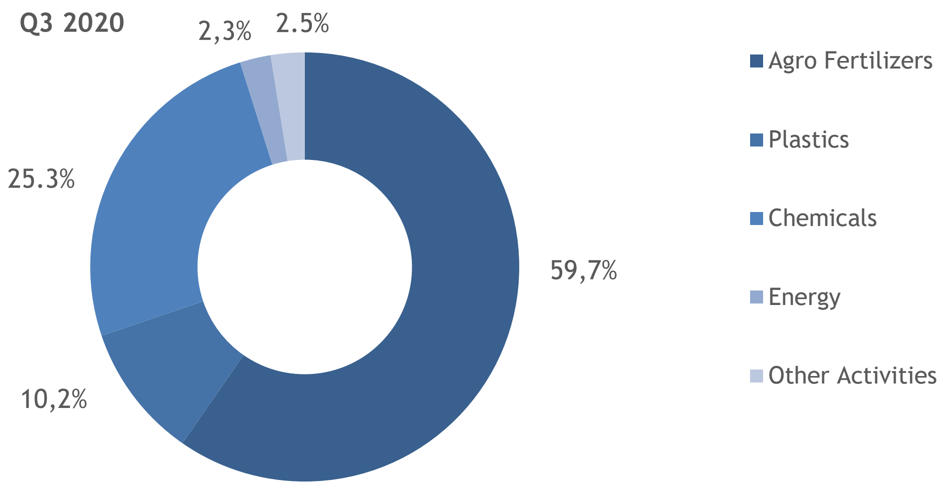


* As at December 31st 2020, operations of Grupa Azoty POLYOLEFINS were transferred from the Other Activities segment to the Plastics segment given significant progress on the Polimery Police project. Data for the three months ended September 30th 2020 were restated accordingly.

Source: Company data.

Revenue by segment





Source: Company data.

Agro Fertilizers

In Q3 2021, revenue in the Agro Fertilizers segment was PLN 2,109,835 thousand, accounting for 54.3% of the Group's total revenue. The segment posted a 46.4% increase in revenue year on year, with a concurrent decrease in the segment's share in the Group's total revenue.
The Agro Fertilizers segment reported a loss on sales and negative EBIT of PLN -81,186 thousand.
Domestic market accounted for 56% of the segment's total sales.

Plastics

In the third quarter of 2021, revenue in the Plastics segment was PLN 510,621 thousand and accounted for 13.1% of the Group's total. Year on year, the segment's revenue increased by 108.2%. The segment reported a profit on sales and positive EBIT of PLN 56,666 thousand.
Foreign markets accounted for 90% of the segment's total revenue.

Chemicals

In the third quarter of 2021, revenue in the Chemicals segment amounted to PLN 1,101,689 thousand, having increased 80.1% year on year. The segment's revenue accounted for 28.4% of the Group's total revenue. The segment reported a profit on sales and positive EBIT of PLN 108,435 thousand.
Foreign markets accounted for 59% of the segment's total sales.

Energy

In the third quarter of 2021, revenue in the Energy segment was PLN 83,705 thousand and accounted for approximately 2.2% of the Group's total. Year on year, the segment's revenue increased by 49.0%, with EBIT in the positive territory, at PLN 11,082 thousand.

Other Activities

In the third quarter of 2021, the Other Activities segment reported revenue of PLN 76,250 thousand, up 23.7% year on year. Accounting for 2.0% of the Group's total revenue. The segment's operations generated a profit on sales and positive EBIT of PLN 11,897 thousand.

(all amounts in PLN '000 unless indicated otherwise)

2.3.3. Structure of operating expenses

Operating expenses by nature of expense

	Q3 2021	Q3 2020	change	% change
Depreciation and amortisation	192,108	187,072	5,036	2.7
Raw materials and consumables used	2,654,192	1,144,613	1,509,579	131.9
Services	428,961	290,413	138,548	47.7
Salaries and wages, including surcharges, and other benefits	449,248	392,160	57,088	14.6
Taxes and charges	161,956	122,782	39,174	31.9
Other expenses	22,140	29,609	(7,469)	(25.2)
Total	**3,908,605**	**2,166,649**	**1,741,956**	**80.4**

Source: Company data.

Structure of operating expenses [%]

	Q3 2021	Q3 2020
Depreciation and amortisation	4.9	8.6
Raw materials and consumables used	67.9	52.8
Services	11.0	13.4
Salaries and wages, including surcharges, and other benefits	11.5	18.1
Taxes and charges	4.1	5.7
Other expenses	0.6	1.4
Total	**100.0**	**100.0**

Source: Company data.

2.3.4. Assets, equity and liabilities

Structure of assets

	Q3 2021	Q3 2020	change	% change
Non-current assets, including:	**14,832,104**	**12,521,870**	**2,310,234**	**18.4**
Property, plant and equipment	11,902,598	9,454,357	2,448,241	25.9
Intangible assets	1,019,785	1,011,951	7,834	0.8
Right-of-use assets	806,680	817,834	(11,154)	(1.4)
Other receivables	512,537	660,162	(147,625)	(22.4)
Goodwill	327,889	325,977	1,912	0.6
Current assets, including:	**6,061,333**	**3,954,088**	**2,107,245**	**53.3**
Inventories	1,683,772	1,367,594	316,178	23.1
Trade and other receivables	3,534,138	1,443,839	2,090,299	144.8
Cash and cash equivalents	706,675	576,137	130,538	22.7
Property rights	86,139	499,975	(413,836)	(82.8)
Total assets	**20,893,437**	**16,475,958**	**4,417,479**	**26.8**

Source: Company data.

(all amounts in PLN '000 unless indicated otherwise)

Structure of equity and liabilities

	Q3 2021	Q3 2020	change	% change
Equity	**8,534,909**	**8,147,144**	**387,765**	**4.8**
Non-current liabilities, including:	**6,488,874**	**4,756,788**	**1,732,086**	**36.4**
Borrowings	4,010,890	2,957,075	1,053,815	35.6
Deferred tax liabilities	535,009	500,717	34,292	6.8
Employee benefit obligations	477,954	503,020	(25,066)	(5.0)
Lease liabilities	333,260	347,544	(14,284)	(4.1)
Provisions	213,469	211,325	2,144	1.0
Government grants received	194,530	193,296	1,234	0.6
Current liabilities, including:	**5,869,654**	**3,572,026**	**2,297,628**	**64.3**
Trade and other payables	3,818,852	2,510,928	1,307,924	52.1
Other financial liabilities	852,695	242,182	610,513	252.1
Borrowings	574,476	454,017	120,459	26.5
Government grants received	382,855	144,659	238,196	164.7
Total equity and liabilities	**20,893,437**	**16,475,958**	**4,417,479**	**26.8**

Source: Company data.

2.3.5. Financial ratios

Profitability ratios [%]

	Q3 2021	Q3 2020
Gross profit margin	13.6	18.1
EBIT margin	2.8	2.5
EBITDA margin	7.7	10.4
Net profit margin	0.4	1.7
ROA	0.1	0.2
ROCE	0.7	0.5
ROE	0.2	0.5
Return on non-current assets	0.1	0.3

Source: Company data.

Ratio formulas:

Gross profit margin = gross profit (loss) / revenue (statement of comprehensive income by function)
EBIT margin = EBIT / revenue
EBITDA margin = EBITDA / net revenue
Net profit margin = net profit (loss) / revenue
Return on assets (ROA) = net profit (loss) / total assets
Return on capital employed (ROCE) = EBIT / TALCL, that is EBIT / total assets less current liabilities
Return on equity (ROE) = net profit (loss) / equity
Return on non-current assets = net profit (loss) / non-current assets

(all amounts in PLN '000 unless indicated otherwise)

Liquidity ratios

	Q3 2021	Q3 2020
Current ratio	1.0	1.1
Quick ratio	0.7	0.7
Cash ratio	0.1	0.2

Source: Company data.

Ratio formulas:
Current ratio = current assets / current liabilities
Quick ratio = (current assets - inventories) / current liabilities
Cash ratio = (cash + other financial assets) / current liabilities

Operational efficiency ratios

	Q3 2021	Q3 2020
Inventory turnover	45	62
Average collection period	82	54
Average payment period	103	115
Cash conversion cycle	24	1

Source: Company data.

Ratio formulas:
*Inventory turnover = inventories * 90 / cost of sales*
*Average collection period = trade and other receivables * 90 / revenue*
*Average payment period = trade and other payables * 90 / cost of sales*
Cash conversion cycle = inventory turnover + average collection period - average payment period

Debt ratios [%]

Ratio	Q3 2021	Q3 2020
Total debt ratio	59.2	50.6
Long-term debt ratio	31.1	28.9
Short-term debt ratio	28.1	21.7
Equity-to-debt ratio	69.1	97.8
Interest cover ratio	276.7	462.1

Source: Company data.

Ratio formulas:
Total debt ratio = total liabilities / total assets
Long-term debt ratio = non-current liabilities / total assets
Short-term debt ratio = current liabilities / total assets
Equity-to-debt ratio = equity / current and non-current liabilities
Interest cover ratio = (profit before tax + interest expense) / interest expense

2.4. Financial liquidity

Although the Group's situation is clearly linked to developments in the market environment, the Parent and the other Group companies are fully solvent, with good credit standing. The Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities in a timely manner. In the third quarter of 2021, the Group paid all of its borrowing-related and other financial liabilities when due, and there is no threat to its ability to continue servicing its debt.

The liquidity management policy operated by the Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (the purpose of which is to effectively distribute funds among the key Group companies).

The Group is able to defer payments of liabilities to its suppliers and service providers under umbrella reverse factoring agreements. Also, the Group can finance receivables from trading partners under umbrella factoring agreements. No events of default occurred during the reporting period, whether relating to timely payment of liabilities or other conditions, that could have resulted in acceleration of debt.

The Group is monitoring the spread of the COVID-19 pandemic and its impact on the Group's economic environment. The Group has identified and monitors the following risk areas related to the pandemic that may affect its liquidity:

- Potential risk of deterioration in the financial liquidity of some of our trading partners as a result of payment backlogs,
- Volatility of exchange rates.

As at the date of this report, the Group identified no significant impact of the pandemic on its financial condition.

2.5. Borrowings

In the three months ended September 30th 2021, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

The Grupa Azoty Group has access to umbrella overdraft limits related to the PLN and EUR physical cash pooling arrangements and under a multi-purpose credit facility, which may be used as directed by the Parent at times of increased demand for funding from any of the Group companies. The Grupa Azoty Group also has access to bilateral overdraft limits and multi-purpose facilities available to the Group companies.

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at September 30th 2021 was PLN 1,044m. At the same time, as at the reporting date, the Group had unused limits under corporate credit facilities of approximately PLN 744m and PLN 18m in funds available under special purpose loans.

In addition, the amount of credit limits available to Grupa Azoty POLYOLEFINS under the Credit Facilities Agreement for the financing of the Polimery Police project was PLN 5,054m.

As at September 30th 2021, the amounts available to be drawn by the Group under the agreements specified above totalled approximately PLN 6,860m, of which undrawn amounts under Grupa Azoty POLYOLEFINS special purpose credit facilities for the financing of the Polimery Police project were PLN 5,054m, and other undrawn amounts available to Grupa Azoty amounted to PLN 1,806m.

The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future. The Group meets the uniform covenants under its credit facility agreements.

(all amounts in PLN '000 unless indicated otherwise)

2.6. Type and amounts of one-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows

There were no other one-off items that would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

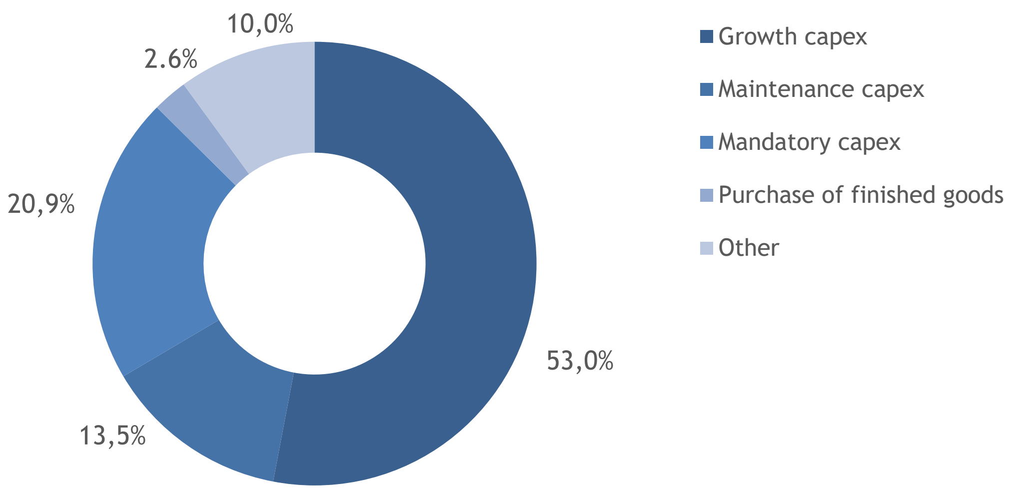
2.7. Key investment projects

In the third quarter of 2021, the Group incurred expenditure of PLN 622,078 thousand to purchase intangible assets and property, plant and equipment.

Structure of capital expenditure:

• Growth capex	PLN 329,629 thousand
• Maintenance capex	PLN 84,157 thousand
• Mandatory capex	PLN 130,093 thousand
• Purchase of finished goods	PLN 15,735 thousand
• Other (major overhauls, components, catalysts, etc.)	PLN 62,464 thousand

Structure of the Grupa Azoty Group's capital expenditure in the third quarter of 2021



Source: Company data.

The Grupa Azoty Group's capital expenditure in third quarter of 2021:

• Parent	PLN 61,586 thousand
• Grupa Azoty POLYOLEFINS	PLN 130,539 thousand
• Grupa Azoty PUŁAWY Group	PLN 332,661 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 45,473 thousand
• Grupa Azoty POLICE Group	PLN 32,216 thousand
• COMPO EXPERT	PLN 6,867 thousand
• Grupa Azoty KOLTAR	PLN 6,582 thousand
• Grupa Azoty SIARKOPOL	PLN 3,881 thousand
• Grupa Azoty PKCH	PLN 2,052 thousand
• Grupa Azoty COMPOUNDING	PLN 152 thousand
• Grupa Azoty ATT POLYMERS	PLN 69 thousand

(all amounts in PLN '000 unless indicated otherwise)

Key investment projects implemented by the Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2021	Project purpose	Scheduled completion date
Grupa Azoty POLYOLEFINS					
Polimery Police	7 210 957*	2,988,109	130,539	The project is to build an on-purpose propylene dehydrogenation plant (PDH) and a polypropylene production plant with associated infrastructure, including the expansion of the Police Sea Port to include a propane and ethylene handling and storage terminal.	2023
Grupa Azoty PUŁAWY					
Construction of coal-fired power generation unit	1,200,000	846,924	93,665	To bring Grupy Azoty PUŁAWY's energy generation units in line with the latest environmental requirements, while increasing the share of the autoproducer CHP plant in the electricity volumes consumed by the production units, and to ensure uninterrupted supplies of energy (process steam and heating water).	2022
Upgrade of existing nitric acid production units and construction of new nitric acid production and neutralisation units and units for production of new fertilizers based on nitric acid	695,000	391,179	2,556	Increase in the efficiency of nitric acid production and the economics of production of nitric acid-based fertilizers Any excess of nitric acid will be processed on the new line for the production of speciality fertilizers (magnesium nitrate, calcium nitrate and potassium nitrate), with a capacity of 600 tonnes per day.	2028
Facility for production of granulated fertilizers based on ammonium nitrate	430,000	411,886	3,895	Improvement of the quality of fertilizers by applying modern mechanical granulation The key element of the complex is two lines for manufacturing granulated fertilizers based on ammonium nitrate melt as the feedstock for granulated ammonium nitrate and calcium ammonium nitrate.	2021
Upgrade of steam generator OP-215 No. 2 to reduce NO_x emissions	145,000	82,132	12,147	The project stems from the need to bring the steam generator, which along with generators Nos. 4 and 5 will become the primary generating unit of the CHP Plant, into compliance with the new NOx emission standards and to restore the generator's proper technical condition.	2022
Replacement of the TG-1 turbine generator set	85,000	59,502	13,765	To increase the efficiency of electricity and heat cogeneration by replacing the TG-1 30 MWe pass-out and condensing turbine with a new 34 MWe turbine as part of the power system upgrade	2022
Grupa Azoty POLICE					
Making production of demineralised water independent of variable salinity of the Oder River and increasing the ability	108,000	84,388	10,541	The upgrade and expansion of the water treatment and demineralisation station will help protect Grupa Azoty POLICE against periods of elevated salinity in the Oder river and will enable the use	2022

(all amounts in PLN '000 unless indicated otherwise)

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2021	Project purpose	Scheduled completion date
to produce special waters in the water preparation units				of the Oder river as the only supply source. The project will also secure the supply of demineralised water to Grupa Azoty POLYOLEFINS units.	
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	74,390	5,888	Rebuilding the synthesis gas compression capacities for the Ammonia Plant through the installation of new compressors	2023
Purchase and installation of a new oxygen compressor	72,800	51,068	5,469	The objective is to replace old steam turbine driven oxygen compressors K-101 A and K-101 B with one electric compressor.	2022
Peak-load/reserve boilers	110,087	18,827	9,080	The peak-load/reserve boiler house as a peak-load source will operate in conjunction with steam generators in the existing CHP plant; in the event of downtime of coal-fired boilers, the peak-load/reserve boiler house will operate as a stand-alone reserve steam generator.	2024

* The project budget translated into PLN at the PLN/USD mid exchange rate assumed in the project financial model. The project budget approved by corporate bodies is USD 1,837,998 thousand.

Source: Company data.

2.8. Factors which will affect the Group's projected performance at least over the next reporting period

Exchange rates

The current situation in financial markets, reflecting the accelerating fourth wave of the pandemic, rising global inflation pressures and a related change in approach of the Monetary Policy Council in the context of earlier decisions by many central banks to gradually increase interest rates, has led to higher market volatility in the fourth quarter of 2021.

Therefore, the Polish currency remains fundamentally undervalued due to the negative real interest rates on domestic deposits and low attractiveness of investments in Polish debt assets. This said, the Monetary Policy Council's unannounced decisions to raise interest rates at the beginning of October and November 2021 have supported a slight appreciation of PLN against EUR and USD as the market expects further interest rates hikes are inevitable to reduce the accelerating domestic inflation amid continued economic growth in Poland and globally.

The forecast currency trends should not have a material bearing on the Group's performance until the end of 2021.

In the medium term, the Group expects a slight appreciation of the złoty in the first quarter of 2022 as the economy continues to expand, the speculative bubble on energy markets is reduced and the global population acquires immunity to COVID-19.

Interest rates in Poland

In the three months ended September 30th 2021, interest rates in Poland were at a historical low of approximately 0.2% p.a., helping the Group to keep borrowing costs at a very low level and reinforce its debt service capacity, also in the case of a planned increase in debt needed to finance investing activities or an increase in basis rates.

Following the Monetary Policy Council's two interest rate hikes and an increase in the reference rate to 1.25%, interest rates are expected to remain at the current levels until the end of 2021, with the hikes heralding the tightening of the domestic monetary policy and further interest rate hikes in 2022, which are bound to raise borrowing costs.

Taking into consideration the adverse effect of the COVID-19 pandemic on the eurozone countries, the European Central Bank continues its quantitative easing programme and a policy of negative interest rates, which should remain at current levels until the end of 2021.

Until September 30th 2021, the US FED also kept interest rates close to zero in order to counteract the effects of the COVID-19 pandemic in the US. A slow and prudent change towards tightening of the monetary policy by the FED is expected towards the end of 2021.

To conclude, any adverse changes to the current low interest rates on debt in currencies used by the Group to finance its business (PLN, EUR and USD) are unlikely before the end of 2021. Therefore, the risk of the Group's financial condition or results of operations deteriorating on higher debt service costs is considered low, and borrowing costs will remain at historical lows until the end of 2021.

The Group has a diversified portfolio of funding sources in PLN, EUR and USD, based on a combination of variable and fixed interest rates (including an IRS hedge for the Polimery Police project). Therefore, the impact of the expected market interest rate hikes on its financial position should be limited.

European Union Regulatory Area

- ***New Fertilizers Regulation (Regulation (EU) 2019/1009 of the European Parliament and of the Council of June 5th 2019)***

The European Commission (EC) is continuing work on delegated acts to the Regulation. The Regulation will come into full force and effect on July 22nd 2022. It is currently on a three-year *vacatio legis*.

In June 2021, the European Commission announced an open tender on a study to assess biodegradation criteria for polymers used in EU fertilising products as coating agents or to increase water retention capacity. Tenders were accepted until August 31st 2021.

On July 5th to July 7th 2021, the EC adopted delegated regulations amending Annexes II, III and IV to Regulation (EU) 2019/1009 of the European Parliament and of the Council for the purpose of adding precipitated phosphate salts and derivates, thermal oxidation materials and derivates, and pyrolysis and gasification materials as component material categories in EU fertilising products. Once the Commission adopts an act, the European Parliament and the Council of the EU generally have three months to formulate any objections. If they do not, the delegated act enters into force. The period for objections by the EU authorities is expected to end on October 5th through October 7th 2021, respectively.

On July 20th 2021, the European Commission published an update to the document containing frequently asked questions (FAQs) concerning Regulation (EU) 2019/1009 of the European Parliament and of the Council.

Until August 16th 2021, the Joint Research Centre carried out consultations of the periodic report entitled 'Technical proposals for by-products and high-purity materials as component materials for EU Fertilising Products'. The report provided an update to the second version of the document and contained a proposal of preliminary criteria for new component material categories (CMCs).

- ***Common Agricultural Policy***

In June 2021, the European Parliament and the Council reached a provisional political agreement on the new Common Agricultural Policy (CAP) introducing a fairer, greener, more animal friendly and flexible CAP. Higher environmental and climate ambitions, aligned with Green Deal objectives, are to be implemented from January 2023. The new CAP is to ensure a fairer distribution of CAP support, especially to small and medium-sized family farms and young farmers.

In the opinion of the National Council of Agricultural Chambers (KRIR), the proposals contained in the draft document entail increased costs and the CAP draft provides for no increase in funding. The proposed measures may cause commercial farms, which export surplus production and ensure food security for Poland, to lose support. According to the KRIR, the implementation of the draft CAP Strategic Plan as it stands may threaten food security and reverse Poland's food exporter status. Non-governmental organisations are of a different view, insisting that priority should be given to protecting and strengthening the environmental sustainability of ecosystems and to achieving climate neutrality in agriculture by 2050.

- ***Farm to Fork Strategy***

On July 15th 2021, the European Commission adopted an implementing regulation authorising certain products and substances for use in organic production and establishing their lists. According to the EC, the EU organic farming legislation seeks to set transparent rules for the production of organic goods across the EU in order to meet consumer demand for reliable organic products, while ensuring fair market conditions for manufacturers, distributors and sellers.

On September 10th 2021, the draft report of the Committee on Agriculture and Rural Development (AGRI) entitled 'A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system' was approved in a vote. On September 30th 2021, the Committee's report was submitted to the plenary meeting of the European Parliament.

- ***Fit for 55***

The European Commission is continuing work to implement the provisions contained in the Communication on the European Green Deal. On July 15th 2021, it published the 'Fit for 55' package, which will undergo a public consultation until November 18th 2021. The package includes the following initiatives:

- revision of the EU ETS (including its extension to maritime and road transport, increased GHG emissions reduction rate, reduced allocation of free allowances);
- establishment of a Carbon Border Adjustment Mechanism (including its extension to the following sectors: cement, steel, aluminium, fertilisers, and electricity; gradual reduction, until complete withdrawal, of free allowances in the sectors covered by the mechanism);
- revision of the effort sharing regulation (increasing the GHG emissions reduction rate in sectors not covered by the EU ETS);
- revision of the Energy Tax Directive (ETD) (including the introduction of a tax rate ranking for energy products depending on their environmental efficiency; setting higher tax rates for fossil fuels and lower ones for 'green' products);
- amendments to the Renewable Energy Directive (RED III) (setting the share of renewable fuels of non-biological origin used in final energy and for non-energy purposes at 50%, etc.);
- amendments to the Energy Efficiency Directive (EED) (increasing the EU energy efficiency target from 32.5% to 36% in 2030, etc.);
- revision of the regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry (LULUCF) (setting an overall EU target for net carbon removals in the LULUCF sector at 310 million tonnes of CO_2eq in 2030 and at 38 million tonnes of CO_2eq for Poland);
- revision of the directive on deployment of alternative fuels infrastructure (supporting the development of alternative fuels infrastructure in the EU for road vehicles, maritime transport, inland navigation and certain aircraft);
- revision of the regulation amending CO_2 emission performance standards for passenger cars and for light commercial vehicles (establishment of a new emission standard for passenger cars and light commercial vehicles, effective from 2030, etc.; average emissions of new cars are to come down to net-zero by 2035 relative to 2021);
- new ReFuelEU Aviation Initiative for sustainable aviation fuels – increasing the supply and use of sustainable aviation fuels at EU airports; sustainable aviation fuels should account for 5% of the fuel mix in 2030);
- new initiative promoting low-carbon fuels in European maritime space (FuelEU Maritime) (increasing the share of renewable and low-carbon fuels in the fuel mix of the international maritime transport sector; including a 2% decrease in the average annual emission intensity of energy consumed per vessel in 2025 relative to the reference year;

- ***Taxonomy***

The European Commission is continuing work on another delegated act designed to achieve the other environmental objectives. Also, a public consultation on the social taxonomy draft report was held between July 12th and August 27th 2021.

From July 30th to September 28th 2021, a public consultation was held on a draft report containing technical screening criteria for the other environmental objectives within the EU taxonomy.

The public consultation on a draft report on taxonomy extension options was closed on September 6th 2021.

- ***Chemicals strategy***

On August 9th 2021, the European Commission launched a revision of the EU legislation on the classification, labelling and packaging of chemical substances and mixtures (CLP). In the context of the implementation of the European Green Deal, the chemicals strategy for sustainability identifies a number of actions that require a targeted review of the CLP Regulation. The impact assessment will examine different amendment options, and based on the findings of that assessment, the Commission will present legislative proposals for amending both the enacting terms of that Regulation and the annexes thereto. The public consultation is open for feedback until November 15th 2021.

- ***Other initiatives***

From June 28th to August 9th 2021, the Commission held a consultation on the standardisation strategy roadmap. The initiative aims to address the challenges facing the European standardisation system and improve it. It is a response to the need to be more assertive and strategic at international level and seeks to better respond to the standardisation needs arising from the green and digital transformation of the EU's industrial ecosystem.

On September 9th 2021, a consultation was launched on the EC's 'Climate change – Restoring Sustainable Carbon Cycles' roadmap. The initiative aims to support the development of sustainable carbon removal solutions. It will propose an action plan to promote carbon farming and develop a regulatory framework for the certification of carbon removals. The public consultation was open for feedback until October 7th 2021.

On July 26th 2021, the European Commission launched a public consultation on the 'Integrated water management – revised lists of surface and groundwater pollutants' initiative. The consultation closed on November 1st 2021.

On September 20th 2021, the European Commission started collecting feedback on the 'EU environmental law – implementation review 2022' initiative.

Polish Regulatory Area

From July 9th to July 14th 2021 a public consultation was held on a draft national regulation on emissions measurement requirements.

On July 12th 2021, the Ministry of Climate and Environment put out for public consultations a draft of 'Poland's Raw Materials Policy'. The document seeks to ensure the security of raw material supplies to Poland by guaranteeing access to vital raw materials (domestic and imported) today and in the long term, taking into account the changing needs of future generations. The feedback period was 30 days from the public consultation opening date.

From July 16th to August 6th 2021, the Ministry of Climate and Environment held public consultations on the updated draft of 'Poland's Hydrogen Strategy until 2030 with an Outlook until 2040' and the document entitled 'Poland's Hydrogen Strategy until 2030 with an Outlook until 2040'. Environmental Impact Forecast'.

Pursuant to the amended Fertilizers and Fertilization Act of July 10th 2007, the application of granulated urea in Poland is prohibited as of August 1st 2021, with the exception of granulated urea containing a urease inhibitor or biodegradable coating. Furthermore, anyone who applies granulated urea containing no urease inhibitor or biodegradable coating in contravention of the prohibition set out in the Act is liable to a fine.

From August 4th to August 20th 2021, public consultations were held on a draft national regulation on detailed conditions for the operation of the power grid.

Between August 5th and August 23rd 2021, public consultations were held on the draft Act Amending the Act on Packaging and Packaging Waste Management and Certain Other Acts.

On August 6th 2021, the Ministry of Climate and Environment published a draft of the 'Updated National Air Protection Programme until 2025 (with an Outlook until 2030 and 2040)'.

From August 12th to September 2nd 2021, public consultations were held on the draft Act Amending Certain Acts on Preventing Environmental Crime.

Between September 17th and October 15th 2021, public hearings were held as part of the first stage of work on the National Growth Concept 2050.

International trade policy

On June 30th 2021, CF Industries Holding filed a request with the US Department of Commerce and the US International Trade Commission to initiate an anti-dumping and anti-subsidy investigation concerning UAN imports from Russia and Trinidad and Tobago. On August 16th 2021, the United States International Trade Commission announced there were reasonable reasons to believe the US industry was seriously hurt by UAN imports from Russia and Trinidad and Tobago, and that the final phase of the proceedings commenced. In line with the current schedule, further findings of the US Department of Commerce in the proceedings will be announced on November 29th 2021.

Proceedings are pending to challenge the European Commission's 2019 decision to impose anti-dumping duties on UAN imports from Russia, the US and Trinidad and Tobago by Methanol Holdings (of Trinidad and Tobago) and Eurochem (of Russia).

On September 14th 2021, the Administrative Court of Appeals in Ukraine closed the proceedings concerning the introduction of nitrogen fertilizer import quotas. The proceedings concerning compound fertilizers are pending. On March 31st 2021, the District Administrative Court of Kiev reversed the Interdepartmental Commission for International Trade's decision of June 22nd 2020 refusing to introduce nitrogen and compound fertilizer import quotas regardless of the country of origin. An appeal against the decision was lodged on April 23rd by the Ministry of Economic Development, Trade and Agriculture of Ukraine.

1On July 27th 2021, the European Commission suspended legal action against the United Kingdom concerning a unilateral change in the trading arrangements with Northern Ireland made by the UK without consulting the EC. In March, the European Commission launched an infringement procedure for breaching the provisions of the Protocol on Ireland and Northern Ireland by unilaterally extending the 'grace periods', which constitutes a breach of obligations under the Withdrawal Agreement. On September 14th 2021, the UK Government once again delayed implementing full border controls on imported agri-food products from the EU. According to the UK government, further delays are due to the COVID-19 pandemic causing disruptions in global supply chains.

On September 10th 2021, the Presidents of Russia and Belarus agreed on an economic integration programme for their countries, comprising 28 maps describing integration across various sectors.

On September 16th 2021, the EU presented a communication on the EU strategy for cooperation in the Indo-Pacific to step up its strategic engagement in the Indo-Pacific region as the region is increasingly becoming strategically important for the EU.

On September 16th 2021, China filed an official request to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP is one of the world's largest free trade areas, bringing together Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam.

September 29th 2021 saw an inaugural EU-US Trade and Technology Council (TTC) meeting. The new Trade and Technology Council set up ten working groups to enhance cooperation in areas such as Climate and Clean Tech, Secure Communication Technology, Misuse of Technology, Threat to Human Rights. According to unofficial sources, one of the main tasks of the Council is to counteract Chinese influence. Another meeting of the Council is scheduled in spring 2022.

Negotiations of EU trade agreements with third countries, including Australia, with New Zealand and Chile, are in progress. In July 2021, the parties exchanged offers concerning public procurement, investments and services. The agreements are being worked out through bilateral negotiations.

No significant progress has been made in ratifying the trade agreement with MERCOSUR countries. Negotiations on the agreement ended in 2019 (the European Commission expects MERCOSUR to become involved in the Paris Agreement and to tackle the problem of deforestation in the Amazon rainforest).

In July and August 2021, the largest producers of mineral fertilizers in Russia made a decision to freeze domestic fertilizer prices until autumn field work has been completed. As the reasons behind the decision, the producers cited changes in macroeconomic conditions triggered by the COVID-19 pandemic and natural disasters affecting some regions of Russia. According to the most recent information, the prices will remain unchanged until December 31st 2021.

In September 2021, the National Development and Reform Commission (NDRC), China's macroeconomic planning agency, introduced a ban on phosphate rock exports, which will remain in force at least until June 2022.

During its meeting held on July 12th and July 13th 2021, the EC decided to increase the trichloroethylene import tariff quota (which should be 11,885 tonnes) as of January 1st 2022.

The European Union, by way of Council Regulation (EU) 2021/1030 of June 24th 2021 amending Regulation (EC) No. 765/2006 concerning restrictive measures in respect of Belarus, imposed sectoral sanctions against that country. The sanctions apply to the fertilizer and petrochemical industries. The EU restrictive measures against Belarus apply to 166 persons and 15 entities. According to the latest press reports, the EU is preparing a fifth set of sanctions against Belarus.

On August 9th 2021, the United States announced new sanctions against Belarus, imposed on 23 persons and 21 entities. In consultation with the US, new restrictions against the regime in Minsk have also been imposed by Canada, the UK and Switzerland.

3. Other information

3.1. Other significant events

Progress of the Polimery Police project

In the three months ended September 30th 2021, Grupa Azoty POLYOLEFINS continued to implement the Polimery Police project to build propylene and polypropylene units with auxiliary systems and associated infrastructure, as well as a port terminal with feedstock storage facilities (the "Project").

The General Contractor for the Project is Hyundai Engineering Co., Ltd. ("General Contractor" or "Hyundai"), in accordance with the contract for turnkey execution of the Polimery Police project of May 11th 2019 (the "EPC Contract"). The start of its commercial operation is scheduled for 2023.

- ***Progress of construction work***

As at October 18th 2021, the overall stage of completion under the EPC Contract was 76.7%. The overall stage of completion is understood as design, procurement and supply, delivery of equipment with long lead times (Long Lead Items), applications for necessary administrative permits and decisions, construction and assembly work.

- ***Hyundai's proposal to amend the EPC Contract***

On August 27th 2021, Grupa Azoty POLYOLEFINS received a letter from Hyundai, concerning the initiation of a procedure to amend the EPC Contract. The amendments to the EPC Contract proposed by the General Contractor concern the following matters:

- increasing the Contractor's fee by a total amount of EUR 127.4m,
- changing the Polimery Police project execution schedule through extension of the project's execution period by 181 days,
- amending an appendix to the EPC Contract where it relates to, among others, the scope of work provided for in the EPC Contract.

According to the General Contractor, the reason for submitting the amendment proposal is, in particular, the impact of the COVID-19 pandemic on the project. On September 3rd 2021, the General Contractor sent amendment proposals in addition to those set out in the letter of August 27th 2021. The amendment proposals are being thoroughly reviewed and verified in terms of their appropriateness under the EPC Contract, in accordance with the procedure provided for in the EPC Contract.

In addition, by September 30th 2021 Grupa Azoty POLYOLEFINS had submitted to Hyundai a number of technical change requests and received further technical change proposals. The amount of the additional change proposals does not materially affect the proposed change of the General Contractor's fee.

At this point, the submitted change proposals have no financial consequences that would need to be reflected in the financial statements for the period ended September 30th 2021.

In the Contractor's opinion, the reason for submitting the amendment proposal is, in particular, the impact of the COVID-19 pandemic on the project.

On September 3rd 2021, the General Contractor sent amendment proposals in addition to those set out in the letter of August 27th 2021. The amount of the additional proposals does not materially affect the proposed change of the Contractor's fee. The amendment proposals are being thoroughly reviewed and verified in terms of their appropriateness under the EPC Contract, in accordance with the procedure provided for in the EPC Contract.

In addition, by September 30th 2021 Grupa Azoty POLYOLEFINS had submitted to Hyundai a number of technical change requests.

- ***Handling and storage terminal (marine gas terminal, HST)***

In the reporting period, installation of the outer shell on an ethylene tank and two propane tanks was completed, and the roof domes of all of the tanks were installed.

Concurrently, hydraulic engineering work in the offshore part of the HST subproject (construction of the wharf and dredging work) is underway. Piling work on the wharf was completed. The assembly of a part of pipe bridges was completed, and the assembly of the apparatus and pipeline laying and welding began. Work is also under way to construct the main terminal building, transformer station building, and a fire and cooling water pumping station building.

- ***PDH and PP units with a logistics base***

In the third quarter of 2021, the deliveries of plant and equipment continued, including of the Continuous Catalyst Regeneration (CCR) modules. It is a package solution designed to regenerate the Oleflex platinum catalyst at the PDH unit. The CCR modules are being installed.

The installation of 60 storage silos, one of the elements of the polypropylene logistics base, was completed.

Foundation work and construction of overground floors of technical buildings continued, finishing work and construction of temporary roads were in progress.

Prefabrication of overground and underground pipelines and their installation is underway on all sub-projects (HST, PDH, PP, auxiliary facilities). In addition, deliveries and assembly of the steel structures of pipe bridges in the area of the facilities, as well as installation of the steel structures of racks continue (only on the PDH, AUX and PP sub-projects).

Earthworks were also continued to clamp propylene pressure tanks.

- ***Decisions and permits***

On September 10th 2021, the Police County Building Inspection Officer issued the first operating permit (out of the required twenty-two). The permit concerns the project to construct the 110kV power grid and the fibre network.

Discontinuation of polyoxymethylene (POM) business by the Parent

On June 9th 2021, the Management Board of the Parent decided that the Parent's activity in the polyoxymethylene (POM) business would be discontinued.

An analysis revealed that the POM business would not be economically viable in the foreseeable future, which was an indication that the Plastics Segment's POM business should be discontinued and its selected assets should be disposed of.

Consolidated revenue from sales of POM products to external customers in 2020 amounted to PLN 54.1m, accounting for 0.5% of the Grupa Azoty Group's total revenue. The planned discontinuation of POM production will reduce Grupa Azoty's total CO_2 emissions.

The operations of the POM business were discontinued in the third quarter of 2021 and some of its assets were sold, positively contributing to the segment's performance.

The decision to exit the POM business has no impact on any other operations of the Plastics Segment.

Grupa Azoty signs a letter of intent to build the Lower Silesian Hydrogen Valley

Grupa Azoty is among the signatories of a letter of intent to build the Lower Silesian Hydrogen Valley.

The letter was signed on September 10th 2021 during the 30th Economic Forum in Karpacz. The parties expressed their intent to forge a partnership and take concrete steps to build and advance a hydrogen economy, with a particular focus on the region of Lower Silesia.

As the largest hydrogen producer in Poland, Grupa Azoty engages in numerous initiatives fostering the development of a hydrogen economy in Poland. In July 2020, the Company was among the signatories to a letter of intent, signed at the initiative of the Ministry of Climate and Environment, to establish a partnership for building a hydrogen economy and signing a sectoral hydrogen agreement. Grupa Azoty is also a member of the European Clean Hydrogen Alliance, a project launched by the European Commission, which aims to deploy hydrogen as an alternative energy carrier in Europe.

In the letter of intent, the parties pledged to harness the region's science and research potential to build the hydrogen value chain. The signatories will also take steps to raise the profile of hydrogen technologies by supporting entities that work to promote energy efficiency and transition to a low-carbon economy.

Grupa Azoty and Łukasiewicz Research Network working together to develop Polish catalysts

On September 14th 2021, the Parent and the Łukasiewicz Research Network – New Chemical Syntheses Institute signed a letter of intent confirming further reinforcement of their long-standing cooperation in catalyst development. The cooperation will be developed by leveraging the parties' experience, knowledge and know-how. The letter was signed during this year's Conference of Polish Catalyst Manufacturers and Users.

The signatories declared that they would continue their scientific, research and implementation work, taking into account the specific nature of catalysts as well as their commercial and scientific potential, and that they would search for and develop new catalyst manufacturing technologies.

In line with the letter, Grupa Azoty S.A. and the Łukasiewicz Research Network – New Chemical Syntheses Institute will also step up their promotional, marketing and sales activities. The parties will continue to share information and experience in the field of catalysts.

Grupa Azoty launches humic acid unit

On September 16th 2021, a pilot line for the production of humic acids, with an annual capacity of 2,500 tonnes of Tohumus (the main product), has been launched at the parent's new Implementation Centre in Tarnów. The new line was developed through research work carried out at the Grupa Azoty Research and Development Centre in Tarnów. It also marks another step taken by Grupa Azoty in its pursuit of the European Green Deal objectives.

The introduction of humic compounds into soil is one of the methods to increase production of good quality food while maintaining soil fertility. The first product of the new unit will be Tohumus, an organic-mineral plant growth stimulator. Three more humus products are expected to be added to the Grupa Azoty Group's portfolio by the end of the second quarter of 2022.

What mainly distinguishes the Grupa Azoty Group's humic acids from other products of this type is their guaranteed quality. They are produced based on a proprietary technology for making growth stimulators from a natural raw material, that is lignite. The process takes place in relatively low temperatures (40–50°C), which do not cause thermal degradation of humic acid chains, thus increasing their efficacy in agricultural applications. The efficacy of Tohumus has been evaluated by the Institute of Soil Science and Plant Cultivation – State Research Institute and the National Institute of Horticultural Research in Skierniewice, both of which confirmed a significant effect on root-mass growth and yield increase.

Grupa Azoty Group awarded a distinction in the Decarbonisation Initiatives Ranking

The Grupa Azoty Group was among the winners of the Decarbonisation Initiatives Ranking compiled by the PTWP Group, publisher of the wnp.pl website. The results were announced during the European Economic Congress in Katowice on September 21st 2021. The ranking presents the most interesting, imaginative and effective initiatives to reduce greenhouse gas emissions. The Ranking leaders were selected by the Board of the 'Green Index' campaign, consisting of representatives of environmental protection institutions, organisations and experts.

The project submitted by the Grupa Azoty Group involved modernisation of the Technical-Grade Nitric Acid production unit, which contributed to reducing emissions of the greenhouse gas nitrous oxide. The alterations consisted in upgrading the unit's structure and installing a new low-emission catalyst. The first changes were made in December 2018, the work was completed in June 2019, and the cost of the project totalled more than PLN 3.5m.

The result was GHG emissions savings of more than 63,000 tonnes of CO_2 (expressed in terms of CO_2 equivalent) in 2019 relative to 2018, which shows that GHG emissions from the technical-grade nitric acid unit fell by approximately 53% relative to the base period. In 2020, CO_2 emissions savings reached 98,000 tonnes, which means a reduction in the unit's emissions volume of about 83% compared with 2018.

Grupa Azoty, PKP Cargo and PESA forge alliance to implement hydrogen technologies in rail transport

On September 23rd 2021, Grupa Azoty, PKP Cargo and PESA declared their intent to cooperate in advancing zero-emission rail freight transport. The companies are set to jointly implement research and development projects seeking to find optimum ways to use hydrogen to power rail vehicles and develop methods for transporting hydrogen and refuelling rail vehicles.

Creating hydrogen fuel transport, storage and refuelling infrastructure is vital in facilitating the development of rail transport using hydrogen propulsion in Poland. The letter of intent signed during the TRAKO International Railway Fair opens a new chapter of the joint effort to work out optimal solutions in these fields based on the partners' previous experience.

Grupa Azoty, the largest hydrogen producer in Poland, is carrying out a number of growth initiatives, including projects focused on fuel-cell hydrogen technologies. The solutions may be instrumental in providing an efficient source of power for rolling stock and developing hydrogen and ammonia production from renewable energy sources that could serve as a fuel for rail transport.

Given the size of demand for hydrogen-powered rail vehicles, the development of hydrogen technologies for rail transport could be a major catalyst of accelerated uptake of hydrogen as a fuel across all transport modes. This would be of great importance for the entire Polish economy considering the European Green Deal implemented by the European Commission, seeking to reduce CO_2 emissions in transport by 30% by 2030, and to achieve climate neutrality by 2050.

Azoty Group and Microsoft have signed an agreement to use the cloud technology in, among others, precision agriculture, fostering technological initiatives that change the manufacturing sector, and expanding the competencies of the Group's employees.

One of the key elements of the cooperation agreement signed on October 13th 2021 is a project to strengthen the culture of innovation at Grupa Azoty, supported by the implementation of appropriate tools and training for company IT specialists, for example in Microsoft 365. The Grupa Azoty IT team will also join the Enterprise Skills Initiative, a programme run by Microsoft to create experts with the highest skills in cloud computing.

Under the signed agreement, Grupa Azoty, supported by Microsoft and Microsoft Technology Center experts, will launch an incubator for startups – technological initiatives at an early growth stage, centred around the chemical industry. Moreover, the use of Innovation Alley and Microsoft Technology Center will allow the teams of both entities and young entrepreneurs to hold strategy sessions and prototype new solutions in a highly innovative environment, as well as jointly develop their competencies using cloud computing.

One of the areas of cooperation between Microsoft and Grupa Azoty will be the development of satellite imaging techniques used in precision agriculture based on cloud computing. Ground-breaking solutions in non-invasive soil analytics using satellite data will support Grupa Azoty customers in a wide-ranging optimisation of agricultural crop management.

Azoty Group signs sectoral agreement to build hydrogen economy

Azoty Group is among the signatories of an agreement signed on October 14th 2021, whose objectives include creating conditions and commencing cooperation for the development of hydrogen technologies in Poland. The document, developed by the Ministry of Climate and Environment in partnership with representatives of the public and private sectors, presents a number of solutions to drive the transformation of Poland's energy sector.

The document defines measures to be undertaken to develop a full value chain of hydrogen economy based on Poland's contribution, including solutions developed by Polish science and R&D industry as well as Polish implementations and patents. Under the agreement, the implementation and development of the hydrogen economy in Poland will be accompanied by several dozen measures included in four strategic objectives to be achieved by 2030.

For Grupa Azoty, hydrogen technologies are among the key solutions facilitating the transition towards low- and zero-emission economy.

Adoption of Grupa Azoty strategy for 2021−2030

On October 28th 2021, the Management and Supervisory Boards of the Parent approved the Grupa Azoty Strategy for 2021–2030.

The Strategy identifies the following elements:

- Management strategy based on Business Segments (AGRO, Plastics-PA, Plastics-Polyolefins, Pigments, Tech Grade Urea, and Oxoplast)
- Financial strategy
- ESG strategy
- Feedstock strategy
- Innovation strategy
- Operational excellence strategy.

The Strategy addresses the challenges posed before today's industry by the European Green Deal. Specific initiatives, including those focused on environmentally friendly captive energy generation, the need to reduce emissions and decarbonise the business, have been presented in 'Green Azoty', our strategic corporate project.

Regulatory changes are seen as an opportunity to take action aimed at cutting harmful environmental emissions through reduced coal consumption, decarbonisation and development of renewable and zero carbon energy sources. Action taken by Grupa Azoty will mark the first step towards achieving carbon neutrality by 2050. Grupa Azoty's objective is to cut the share of electricity from burning coal to less than 50% of total energy consumed in 2030.

The key strategic plans assume a 40% share of renewables in electricity generation mix of Grupa Azoty by 2030. The share of renewable energy sources in energy generation capex is assumed at 17.3%.

The key financial goals include delivering an EBITDA margin of more than 16% by 2030 and achieving the net debt to EBITDA ratio below 3.0 by 2025.

The dividend policy of the Parent provides for the company's continued ability to pay dividends once its strategic capex programme (including climate transition projects) has been completed, at a level above 40% of consolidated net profit

Sustainable development will be the Group's priority over the 2030 time horizon, pursued through initiatives seeking to further environmental protection, social good and responsible corporate governance. Initiatives previously undertaken in these areas will be included in Grupa Azoty's ESG Strategy, organised around five pre-defined strategic pillars: climate and environment, sustainable products, sustainable supply chain, immediate environment, safe and friendly workplace.

Given Grupa Azoty's significant reliance on external suppliers, its key strategic objective in feedstocks is to ensure their secure and uninterrupted supplies, with intra-Group activities geared towards more efficient use of our own feedstock assets.

The research, development and innovation activities to be undertaken during the period covered by the Strategy will focus on developing the technologies applied and products offered by Grupa Azoty. Over the 2030 horizon, Grupa Azoty will focus on implementing innovation-oriented solutions within four areas: supporting corporate projects, developing an innovation system, innovation projects, and innovation geared towards minimising the impact of regulatory risks.

Planned R&D&I expenditure at Grupa Azoty in 2030 is estimated at 2%-3% of revenue. The profitability of the whole portfolio of new projects is assumed at IRR>15%.

Green Paper for CCS development in Poland

On November 2nd 2021, LOTOS Petrobaltic, Grupa LOTOS and Grupa Azoty presented a set of recommendations on legislative changes that would enable the deployment in Poland of large-scale commercial carbon capture and storage (CCS) projects.

The document was also submitted to the Ministry of Climate and the Environment, which launched a public consultation on October 25th 2021.

'Green Paper for CCS development in Poland. Business proposals in the legislative process' includes recommendations on changes to generally applicable laws. The severity of the effects of global warming also calls for urgent action, which however may only be taken in a conducive legal environment. Therefore, LOTOS Petrobaltic set up a working group, which – with the support of experts from Grupa LOTOS and Grupa Azoty – prepared a programme document with a description of identified legal issues hindering CCS activities and with proposals on how to resolve them.

The CCS technology is already being implemented by such leading global economies as the US, China, Norway, France, and the Netherlands. Preliminary estimates indicate that the capacity of Poland's geological formations suitable for CCS is hundreds of millions of tonnes of CO_2. Their optimal utilisation could help to save billions of złoty by those Polish companies which release CO_2 into the air and have to buy emission allowances today.

Information on the effects of the COVID-19 pandemic

For information on the effects of the COVID-19 pandemic, see Note 3.9 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2021.

3.2. Significant agreements

The agreements are presented in chronological order.

In the third quarter of 2021 and as at the date of this Report, none of the Group companies defaulted on significant credit facilities or other borrowings or breached any material covenants under credit facility or other loan agreements.

Material agreements

Transaction Agreements between Grupa Azoty PUŁAWY and PGE Obrót S.A.

In the third quarter of 2021, under the electricity sale framework agreement, Grupa Azoty PUŁAWY and PGE Obrót S.A. entered into Transaction Agreements with a total value of up to PLN 180,151 thousand.

Insurance agreements

Business and property third-party liability insurance

On July 28th 2021, a master agreement for business and property owner's liability insurance (OC) was concluded with Towarzystwo Ubezpieczeń Wzajemnych (TUW) Polskiego Zakładu Ubezpieczeń Wzajemnych (PZUW) by Grupa Azoty Group companies, members of the Grupa Azoty Mutual Insurance Union operating within TUW PZUW, for a period of two years, i.e., from August 1st 2021 to July 31st 2023.

Insurance of environmental risks

On September 23rd 2021, the key Group companies (the parent, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY) concluded an environmental liability insurance agreement with Colonnade Insurance Societe Anonyme, Polish Branch, extending the existing cover for the period from September 16th 2021 to September 15th 2023.

D&O insurance

On September 16th 2021, Powszechny Zakład Ubezpieczeń S.A. issued confirmation of insurance cover for the liability of the parent's directors and officers (providing insurance cover also to the other Group companies) for the period September 17th 2021–September 16th 2022, on the terms and conditions set out in its offer, including the continuation of the basic policy and execution of excess liability policy, and provision of additional information and guarantee statements by the policyholder (the parent) on behalf of the other insured companies by September 30th 2021, which the policyholder did. Once the information and statements were provided, the policies (basic and excess liability policies) were issued for the specified period.

Trade credit insurance

In the third quarter of 2021, the parent, Grupa Azoty PUŁAWY, Grupa Azoty KĘDZIERZYN and Grupa Azoty SIARKOPOL signed separate statements concerning replacement of "Polisa na Wschód" (PnW) with a new product "Polisa bez Granic" (PbG). According to the information received from Korporacja Ubezpieczeń Kredytów Eksportowych (KUKE), PnW was replaced with the new product PbG, adapted to new market conditions. The policies have been executed for an indefinite period and are valid as of September 1st 2021.

On July 23rd 2021, trade credit insurance policies of the parent (with coinsurance cover for Grupa Azoty SIARKOPOL, Grupa Azoty Zakłady Azotowe Chorzów S.A., Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o., Agrochem Puławy Sp. z o.o., Grupa Azoty COMPOUNDING and Grupa Azoty KOLTAR) and on July 29th 2021 – trade credit insurance policies of Grupa Azoty KĘDZIERZYN, taken out with KUKE and providing global cover for the companies' receivables, were renewed for the period August 1st 2021 – July 31st 2023.

Project co-financing agreements

In the third quarter of 2021, Grupa Azoty PUŁAWY was party to the agreement with the National Fund for Environmental Protection and Water Management on co-financing of the project to upgrade steam generator OP-215 No. 2 in order to reduce NO_x emissions. The loan amount is PLN 52.5m. As at September 30th 2021, the outstanding balance was PLN 34.1m. In the third quarter of 2021, under agreements with the Ministry of Investment and Economic Development and the National Centre for Research and Development, Grupa Azoty PUŁAWY's bank account was credited with grants totalling PLN 401 thousand.

In the third quarter of 2021, under agreements with the National Centre for Research and Development, the bank account of

- the Parent was credited with grants totalling PLN 374 thousand,
- Grupa Azoty KĘDZIERZYN was credited with grants totalling PLN 104 thousand.

3.3. Sureties and guarantees

Guarantees

In the third quarter of 2021, the Grupa Azoty Group did not issue, or execute annexes to, any guarantees.

Letters of credit

On July 14th 2021, BNP Paribas Bank Polska S.A., at the request of Grupa Azoty PUŁAWY, issued an import letter of credit of EUR 217 thousand, expiring on December 23rd 2021. The beneficiary of the letter of credit is a supplier of spare parts for drum equipment for the mechanical granulation unit. The letter of credit was issued under the multi-purpose credit facility agreement with BNP Paribas Bank Polska S.A.

Intragroup loans

Annexes to the loan agreement of May 31st 2020 with Grupa Azoty POLYOLEFINS

Grupa Azoty POLYOLEFINS executed:

- with the Parent:
  - on February 10th 2021, Annex 1 to the PLN 344,464 thousand loan agreement, concerning compounding of one third of commission and interest accrued as at December 31st 2020. In accordance with Annex 1, as a result of the compounding, the loan principal as of December 31st 2020 is PLN 355,120 thousand.
  - on July 7th 2021, Annex 2 to the loan agreement in connection with compounding of interest for the next interest period. In accordance with the Annex, as a result of the compounding, the loan principal as of June 30th 2021 is PLN 367,729 thousand;
- with Grupa Azoty POLICE:
  - on February 10th 2021, Annex 1 to the PLN 388,438 thousand loan agreement, concerning compounding of one third of commission and interest accrued as at December 31st 2020. In accordance with Annex 1 as a result of the compounding, the loan principal as of December 31st 2020 is PLN 400,454 thousand.
  - on July 7th 2021, Annex 2 to the loan agreement in connection with compounding of interest for the next interest period. In accordance with Annex 2, as a result of the compounding, the loan principal as of June 30th 2021 is PLN 414,673 thousand.

Settlement of loan agreements between Grupa Azoty POLICE and Supra Agrochemia Sp. z o.o.

Following the entry in the National Court Register, on July 6th 2021, of the merger of Grupa Azoty POLICE with its subsidiary Supra Agrochemia Sp. z o.o. pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e. through the transfer of all of Supra Agrochemia Sp. z o.o.'s assets to Grupa Azoty POLICE, mutual liabilities, including under loan agreements, totalling PLN 15,068 thousand as at June 30th 2021, were settled.

(all amounts in PLN '000 unless indicated otherwise)

3.4. Shares and shareholding structure

Number and par value of shares as at the issue date of this Report:

- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share.

The total number of Parent shares is 99,195,484 bearer shares (ISIN code PLZATRM00012).

Below are listed shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this Report, along with information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting.

Shareholding structure as at September 9th 2021 (in accordance with the information provided in the interim report for the first half of 2021)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,657,350 shares or 19.82%)	406,998	0.41	406,998	0.41
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited)	9,430,000	9.51	9,430,000	9.51
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
Other	28,390,113	28.62	28,390,113	28.62
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

*) Direct subsidiary of Norica Holding S.à r.l.

The actual shareholding structure may differ from that presented if there were no events giving rise to a shareholder's obligation to disclose a new shareholding or if, despite the occurrence of such events, a shareholder failed to provide relevant information.

In the period from September 9th 2021 to the issue date of this Report, the Parent was not officially notified of any changes in major holdings of its shares.

3.5. Parent shares held by management and supervisory personnel

As at the end of the reporting period (September 30th 2021) and as at the date of this Report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

Management Board of the Parent

In the third quarter of 2021, there were no changes in the composition of the parent's Management Board. As at September 30th 2021, the Management Board was composed of the following persons:

- Tomasz Hinc – President of the Management Board,
- Mariusz Grab – Vice President of the Management Board,
- Filip Grzegorczyk, PhD – Vice President of the Management Board,
- Tomasz Hryniewicz – Vice President of the Management Board,
- Grzegorz Kądzielawski – Vice President of the Management Board,
- Marek Wadowski − Vice President of the Management Board,
- Zbigniew Paprocki – Member of the Management Board.

Powers and responsibilities of the Parent's Management Board and Supervisory Board members

Division of powers and responsibilities between the members of the parent's Management Board as at September 30th 2021:

- Tomasz Hinc – President of the Management Board, responsible for managing the Parent Management Board's operation and for corporate governance, corporate supervision, communication and PR, human resources management, sponsorship activities, compliance management, internal audit, CSR, representing the Parent in relations with its stakeholders, including shareholders, governing bodies, central and local government authorities, integration and coordination of supervised areas and processes within the Group;
- Mariusz Grab – Vice President of the Management Board, responsible for procurement process management, ICT process management, security and cybersecurity management, raw material and semi-finished product integration, integration and coordination of supervised areas and processes within the Group;
- Filip Grzegorczyk, Dr. Habil. – Vice President of the Management Board, responsible for strategic management of energy transition projects, logistics process management, corporate risk management, market regulations and protection, market analyses, integration and coordination of supervised areas and processes within the Group, coordination of efforts designed to meet the requirements of the Green New Deal in the area of energy;
- Tomasz Hryniewicz – Vice President of the Management Board, responsible for management of sales and customer service standards, product portfolio management, integration and coordination of supervised areas and processes within the Group;
- Grzegorz Kądzielawski, Ph.D. – Vice President of the Management Board, responsible for research and development, protection of intellectual and industrial property, technology transfer and cooperation with universities and institutions in the area of innovation, preparation and implementation of investment projects at the Parent, monitoring of the implementation of investment projects at the Group, social dialogue, strategic planning and monitoring of strategy implementation, strategic management of projects with the exception of energy transition, integration and coordination of supervised areas and processes within the Group, coordination of the Group's efforts designed to meet the requirements of the Green New Deal (excluding the energy area) and Circular Economy;
- Marek Wadowski – Vice President of the Management Board, responsible for finance and accounting policy management, monitoring of the implementation of plans, planning, budgeting and controlling, mergers and acquisitions, investor relations, integration and coordination of supervised areas and processes within the Group;
- Zbigniew Paprocki – Member of the Management Board, Chief Executive Officer of the Parent, responsible for management of integration and coordination of production processes, management of maintenance of production assets, shutdowns, repair and overhauls, critical infrastructure management, technical safety, fire and environmental safety, integration and coordination of supervised areas and processes within the Group.

Division of responsibilities between the Management Board members as at September 30th 2021

Tomasz Hinc President of the Management Board
- directing the work of the Management Board
- corporate management
- corporate supervision
- HR
- internal audit
- communication, PR, sponsorship and CSR
- Compliance
- legal support
- representing Grupa Azoty S.A. before stakeholders

Mariusz Grab Vice-President of the Management Board
- procurement processes
- ICT processes
- safety and cybersecurity management
- raw materials and intermediate products integration
- President of the Management Board of Grupa Azoty Police

Filip Grzegorczyk PhD Vice-President of the Management Board
- energy transition and New Green Deal
- regulations, public affairs and market protection
- corporate risks
- logistics

Tomasz Hryniewicz Vice-President of the Management Board
- sales management in the Agro and Plastics segments
- customer service quality management
- product portfolio management
- President of the Management Board of Grupa Azoty Puławy

Grzegorz Kądzielawski, PhD Vice-President of the Management Board
- research and development
- innovation
- protection of intellectual and industrial property rights
- collaboration with universities
- monitoring of investment project implementation
- social dialogue
- strategic planning and monitoring of strategy implementation
- strategic project management
- New Green Deal and Circular Economy

Marek Wadowski Vice-President of the Management Board
- financial management and accounting policies
- monitoring of budget implementation
- planning, budgeting and controlling
- investor relations

Zbigniew Paprocki Member of the Management Board, Director General
- Director General
- integration of production processes across Grupa Azoty S.A.
- maintenance of production assets, shutdowns and repairs
- critical infrastructure
- plant, fire and environmental safety

Source: Company data.

Supervisory Board

In the third quarter of 2021, there were no changes in the composition of the parent's Supervisory Board. As at September 30th 2021, the Supervisory Board was composed of the following persons:

- Magdalena Butrymowicz, LL D – Chair of the Supervisory Board,
- Wojciech Krysztofik – Deputy Chair of the Supervisory Board,
- Robert Kapka – Secretary of the Supervisory Board,
- Monika Fill – Member of the Supervisory Board,
- Bartłomiej Litwińczuk – Member of the Supervisory Board,
- Michał Maziarka – Member of the Supervisory Board,
- Marcin Mauer – Member of the Supervisory Board,
- Roman Romaniszyn – Member of the Supervisory Board.

On May 13th 2021, following his appointment as member of the Management Board of the 12th term of office, Zbigniew Paprocki resigned from the position of employee-elected member of the Supervisory Board. A by-election of a candidate for the position of employee-elected member of the Grupa Azoty Supervisory Board of the 11th term of office was held among Grupa Azoty Group employees in the period from July 26th to August 16th 2021 (1st round) and from August 25th to September 8th 2021 (run-off). The candidate who received the largest number of votes was Janusz Podsiadło.

Following confirmation by the Central Election Committee of the validity of the by-election, the Supervisory Board of the Parent, acting pursuant to Section 27 of the 'Rules for the Election of Candidates for the Positions of Supervisory Board Members Appointed from among Persons Elected by Employees of the Grupa Azoty Group', has resolved to request that the Management Board convene an Extraordinary General Meeting in order for the General Meeting to decide on the appointment of the candidate elected in the by-election by Grupa Azoty Group employees to the Supervisory Board. The Extraordinary General Meeting was convened for November 15th 2021.

Supervisory Board's Audit Committee

To streamline its work and improve control of the Parent and the Group, on July 4th 2013 the Supervisory Board passed a resolution to appoint an Audit Committee.

In the third quarter of 2021, there were no changes in the composition of the Audit Committee. As at September 30th 2021, the Audit Committee was composed of the following persons:

- Marcin Mauer – Chair,
- Monika Fill – Member,
- Michał Maziarka – Member,
- Robert Kapka – Member.

Other committees of the Supervisory Board

A Strategy and Development Committee and a Nomination and Remuneration Committee operate within the Supervisory Board.

In the third quarter of 2021, there were no changes in the composition of the Strategy and Development Committee. As at September 30th 2021, the Strategy and Development Committee was composed of the following persons:

- Wojciech Krysztofik – Chair,
- Robert Kapka – Member,
- Bartłomiej Litwińczuk – Member.

In the third quarter of 2021, there were no changes in the composition of the Nomination and Remuneration Committee. As at September 30th 2021, the Nomination and Remuneration Committee was composed of the following persons:

- Michał Maziarka – Chair,
- Magdalena Butrymowicz – Member,
- Wojciech Krysztofik – Member,
- Roman Romaniszyn – Member.

4. Additional information

Management Board's position on the achievement of forecasts

As no forecasts for 2021 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

Litigation

There are no material court, arbitration or administrative proceedings pending with respect to any of the Group companies that would concern liabilities or debt claims as referred to in the Regulation of the Minister of Finance of April 20th 2018 on current and periodic information (Dz. U. of 2018, item 757), other than the following proceedings:

- Proceedings instigated by a Shareholder of the Parent to repeal Resolution No. 5 of the Parent's Extraordinary General Meeting of August 20th 2020 to grant consent for legal transactions which could result in disposal of the Parent's non-current assets. The value of the claim is PLN 599,283 thousand. The proceedings were initiated on September 23rd 2020 (date of filing the claim with the Court). The parties to the proceedings are Jacek Lampart, a shareholder of the Parent, and the Parent. The Parent considers the claim to be unfounded. The plaintiff claims that the majority of votes required to pass a resolution of the Parent's General Meeting on the disputed matter was not achieved, and in order to substantiate his claim the plaintiff referred to a provision of the Commercial Companies Code as the legal basis, while in the Parent's opinion the provision does not apply to the contested resolution. On April 1st 2021, the Regional Court of Kraków issued a judgment dismissing the claim and awarding litigation costs in line with the result of the proceedings. The judgement is not final.
- Proceedings instigated by the parent against Cenzin Sp. z o.o. The value of the claim is PLN 79,821 thousand. The case concerns a claim for payment of contractual penalty for delay, extension of CAR/EAR insurance by the Parent, repayment of an outstanding advance, loss of co-financing under the Norwegian Financial Mechanism, cost of work in progress inventory taking following withdrawal from the contract, cost of completion of the project, compensation for the purchase of more expensive coal, compensation for lost benefits from sale of magnesium sulfate, compensation for purchase of magnesium oxide, and determination of the defendant's liability for losses which may arise in the future. The claim was filed with the Regional Court of Kraków on May 7th 2021.

Parent's branches

The Parent does not operate non-local branches or establishments.

Shares, share issues

In the third quarter of 2021, the Parent did not issue, redeem or repay any debt or equity securities. The Parent had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

There are no agreements known to the Parent which may cause future changes in the percentages of shares held by the existing shareholders and bondholders.

The Parent does not operate any employee stock option schemes.

Signatures of members of the Management Board

………………………………	………………………………
Tomasz Hinc	Mariusz Grab
President of the Management Board	*Vice President of the Management Board*
………………………………	………………………………
Filip Grzegorczyk, PhD	Tomasz Hryniewicz
Vice President of the Management Board	*Vice President of the Management Board*
………………………………	………………………………
Grzegorz Kądzielawski, PhD	Marek Wadowski
Vice President of the Management Board	*Vice President of the Management Board*
………………………………	
Zbigniew Paprocki	
Member of the Management Board Director General	

Person responsible for maintaining accounting records

………………………………
Piotr Kołodziej
Head of the Corporate Finance Department

Tarnów, November 9th 2021